

Rt. Hon Alistair Carmichael MP
Chair
Environment, Food and Rural Affairs Committee
House of Commons
London
SW1A 0AA

Sent via email

3 June 2025

Dear Mr. Carmichael,

Reforming the Water Sector – Response to EFRA Committee letter to Pennon

Thank you for your letter and for the opportunity to continue contributing to the Committee's important inquiry into reforming the water sector following my appearance before the Committee in February.

We appreciate the Committee's efforts to gain a comprehensive, cross-industry understanding of the issues at hand. My team has provided detailed responses to the questions posed, included in the appendix.

I thought it would be helpful, by way of providing context to our answers to your questions, in outlining how we are structured, given we are a Group that has evolved over the last 5 years.

Pennon is a FTSE-listed business, with our origins in water and environmental infrastructure. Following a strategic review in 2020, we sold our recycling and waste management business, Viridor, reinvesting a proportion of the proceeds in UK Water, as we became the only company actively consolidating in the water sector.

This strategy has brought financial resilience to customers and communities. Since 2020, we have acquired water businesses (Bristol Water, and the Isles of Scilly), merging their licences into the existing South West Water licence (which already incorporated the Bournemouth Water acquisition from 2015).

Most recently, we acquired Sutton and East Surrey Water (SES), on Ofwat's financial resilience watchlist given its debt levels. As a result of our acquisition, we have improved the ongoing financial resilience ensuring the business can focus on serving its customers. Currently SES retains with a separate licence. Each licence holder is appropriately ring fenced in terms of Board, governance and necessary aspects such as dividend policy.

Dividend policies

Dividends play an important role in supporting investment and improved services. Our dividend policies across the Group, facilitate careful long-term stewardship aligned to our strategy in UK Water. Firstly, dividends are not distributed from the water businesses unless performance and profitability thresholds have been met, and secondly our disciplined approach has ensured that the parent company Pennon has injected twice as much equity into the water businesses, compared to the dividend distributions made by the water companies over the past 5 years.

Remuneration models

The remuneration framework for a listed business like Pennon is set independently of the Executive, with adherence to remuneration policies and outcomes voted on by shareholders annually. Members of the Committee (all Non-Executive) are selected on the basis of experience, independence and understanding of good corporate governance and recommended by the Nominations Committee.

The Pennon Group's current remuneration policy has evolved over the past 5 years to reflect the strategy focused on UK water. In addition, and as a listed business, we focus on long term stewardship. We believe having incentive pay that is reinvested into the business as shares with strict shareholding

guidelines and with a growing stake in the business is more aligned with customers objectives over the longer term.

We do recognise that cash bonuses are problematic in the sector and have also taken a responsible approach in not taking bonuses when it has been right to do so. Given this, we believe in a move to longer term incentive frameworks, which has the potential to do three things – rebuild trust with the public, retain and attract talent, and support careful stewardship and sustainability aligned with customer interests.

Advertising fees

We note the Committee's wider concerns into how the water companies' money may be spent on areas such as advertising and legal services.

The licensed wholesale water businesses undertake customer awareness campaigns to provide essential updates, for example where to access affordability and financial support, or and as you note, to ensure that customers can access information about water quality – for example WaterFit live, that provides customers and visitors on bathing water quality at their favourite beach. We do not believe this is brand promotion, but important customer engagement. For the avoidance of doubt Pennon Group, with its other non-water regulated business interests may from time to time advertise through local regional sponsorship.

Legal fees

We strive to maintain constructive working relationships with government and all our regulators. It's what the public expects of us. Our water companies have not incurred any legal actions against regulators over the past 5 years. In the normal course of business, and in response to enforcement action, we may raise specific legal arguments, but we have not pursued judicial reviews or initiated similar legal claims against these bodies.

Replacement rates of assets

Turning to your question around asset management, our water businesses follow a targeted and risk-based approach to asset replacement, with investment guided by long term asset management models, with a focus on serviceability and resilience. The investments we intend to make in this next regulatory period, will see a modelled increase to replacement rates. With long term stewardship of the assets a priority, we are focused on being good custodians for future generations.

Tackling water poverty

Supporting customer affordability across our water businesses is one of our key strategic priorities. There are two aspects to this, the first is making sure bills are as low as possible for the services provided, with the second supporting customers who find themselves in vulnerable circumstances.

Following a decade of consistently lowering bills, we ended the last regulatory period with more customers than ever before having an affordable bill, and the equivalent of removing circa 100,000 households from water poverty, through affordability surveys, customer feedback, and the uptake of support schemes. In today's society, vulnerability can mean many things, and we have also focused on increasing the number of customers on our priority services register, with a 250% increase in support, and as we established data sharing arrangements with other utility providers.

Whilst we have made the tough decision to put bills up in 2025/26, for the first time in over a decade, as we invest to improve services, we have carefully considered the impact, with two thirds of our investments funded by our investors and debt providers. Additionally, we remain focused on supporting vulnerable customers with a £200m support package and extending our zero-water poverty pledge to 2030.

Our sector leading demand reduction schemes including our 'Water is Precious' water efficiency campaign in Cornwall and our ongoing trials with hundreds of customers and businesses across the south west will help customers to use less and save more. We continue to support the work being progressed by Government with plans to introduce a single social tariff.

Data transparency

We recognise that water is a public good, and we are committed to transparency in how we manage and report on water quality and security. From being one of the first water companies to achieve 100% coverage of our Combined Sewer Overflows, SWW's WaterFit platform provides real-time updates on bathing water quality, overflow activity, and investment plans, while contributions to the National Storm Overflow Hub and local monitoring initiatives further enhance public access. SWW is also piloting rapid bathing water tests and expanding monitoring to better understand wider environmental impacts—reinforcing our commitment to openness and continuous improvement.

We believe that open access to accurate, timely data empowers customers, campaigners, and communities to make informed decisions, hold us accountable and as a listed business, transparency is at our core. In addition, our programme of customer and community roadshows are always a personal highlight for me, as I get to speak to thousands of customers regularly. In addition, we meet quarterly with our customer panel as part of WaterShare+, with panel members representing the views of customers from across all regions and holding us to account for performance.

Finally, I believe the important topics that the Committee has rightly raised will aid in everyone playing their part in delivering a resilient, transparent, and sustainable water sector that serves customers, communities, and the environment. We appreciate the opportunity to contribute.

Yours sincerely,

A handwritten signature in dark ink, appearing to read 'Susan Davy', followed by a small dot.

Susan Davy
Chief Executive Officer, Pennon Group

APPENDIX

Remuneration Models

Executive Remuneration: The Group has always taken a responsible approach to remuneration. Our principles around performance related pay are grounded in the Investment Association's guidance. We believe that performance related pay is necessary to attract and retain talent. Equally when combined with long term stewardship of critical national infrastructure, it can support economic growth and stability. As with any critical national infrastructure, alignment of performance related pay with the long-term stewardship of the assets and delivery for customers and the environment is paramount.

The majority of performance related pay is paid as shares, reinvested back into the business and not paid as cash, focused on long term stewardship. Group Executives are required to hold 200% of their annual salary in shares. Malus and clawback best practice arrangements exist to recover payments.

In the past 5 years, the Group has taken a responsible approach to bonuses, waiving annual bonuses in FY23 and FY24, and the long-term award in FY23, and in direct response to public and customer feedback, and when considering environmental and customer impacts on the water businesses.

For FY25, the Group arrangements have been more closely aligned with that of the water businesses – with 90% of award based on water company performance and 10% on performance of the Group. In addition, for FY25, and in response to feedback from the EFRA committee – affordability and priority services for customers were included in the long-term incentive plan (LTIP).

We continue to evolve arrangements in line with best practice models.

1. How remuneration committees are selected and who sits on them

Group Level

Pennon's Remuneration Committee is composed of independent non-executive directors, appointed by the Board as set out by the UK Corporate Governance Code. The Committee complies with the UK Companies Act 2006 and the UK Listing Rules in rewarding and driving balanced performance for the longer term. Listed companies also comply with the Investment Associations "principles of remuneration". All non-executive directors are independent and stand for re-election annually. No Director or any other attendee participates in any discussion on, or determination of, his or her own remuneration

Members are selected based on their experience, independence, and understanding of corporate governance. The Committee is chaired by an independent non-executive director and supported by Remuneration consultants who provide independent advice and as members of a voluntary code of conduct.

The Committee has to set a Remuneration policy every 3 years, and seek approval, ensuring alignment with the long-term interests of the company, the company's purpose, values and strategy, and the view of shareholders, and wider stakeholders.

As part of the Annual Report and Accounts, the Group publishes a Director's Remuneration Report, outlining how remuneration decisions have been arrived at. Shareholders vote yearly on the appropriateness of outcomes.

In assessing the appropriateness of any award, the committee reviews each decision, against a discretion framework, ensuring decisions are robust, and aligned with the outcome for shareholders, communities and the environment.

Current remuneration policy

The Group's remuneration policy is designed to ensure that executive pay reflects the overall performance of the company, and the value delivered to customers, communities, and stakeholders. We currently operate both annual and long-term performance related pay schemes, which are subject to external policy consultation every three years.

For FY25, annual arrangements have been amended to ensure a larger percentage of remuneration is focused on the water businesses (90% water businesses, 10% Group). This has ensured that the vast majority of the bonuses are focused on metrics aligned in support of delivering for customers, communities and the environment.

In response to feedback from the EFRA committee, affordability metrics were incorporated into the customer metrics basket for the Long-Term Incentive scheme (LTIP).

2. How remuneration has changed over the past five years

The balance of remuneration metrics has changed significantly over time, with a shift towards longer term stewardship and outcomes for customers, communities and the environment.

Pennon Annual Bonus FY25

<i>Pennon</i>	<i>SWW</i>	<i>SES</i>	<i>Pennon</i>
<i>Weighting</i>	<i>90%</i>		<i>10%</i>
<i>Metrics include</i>	<i>Financial Metrics 10%</i> <i>Customer and environmental metrics 80%</i>		<i>Pennon Power 5%</i> <i>Retail Performance 5%</i>

Pennon Long Term Incentive scheme (2023 construct).

<i>Measure</i>	<i>RORE</i>	<i>Environmental Metrics</i>	<i>Customer Metrics</i>
<i>Weighting</i>	<i>33%</i>	<i>40%</i>	<i>27%</i>

Comparison Pennon Annual Bonus FY21

<i>Measure</i>	<i>Financial</i>	<i>Customer & environmental</i>	<i>Individual</i>	<i>Responsible Business</i>
<i>Weighting</i>	<i>60%</i>	<i>10%</i>	<i>20%</i>	<i>10%</i>

Comparison Pennon LTIP FY21

<i>Measure</i>	<i>Financial</i>
<i>Weighting</i>	<i>100%</i>

Dividend Policies

Dividends: these have an important role in supporting investment and improved services but are only paid by water businesses when specific performance and profitability thresholds are met. Moreover, we have injected twice as much equity into the water businesses as taken in the form of dividends over the last 5 years.

Overview

In order to aid full understanding, we have included information in respect of Pennon Group Plc as well as its regulated water businesses. These water businesses constitute South West Water, owned since privatisation in 1990; Bournemouth Water acquired in 2015; Bristol Water, acquired in 2021 and subsequently both transferred into South West Water; and Sutton and East Surrey Water, acquired in January 2024.

In summary, over the past five years, Pennon Group plc has provided additional equity into the regulated water businesses it owns of over £530 million; whilst those regulated water businesses have paid dividends of £202 million to Pennon Group plc, as their sole shareholder. As such, we note that the net value injected into the regulated water businesses is more than double the value paid as dividends from the water businesses owned by Pennon Group over the past five-year period, as we invest record amounts in our waste and clean water asset base.

Pennon Group plc

As a FTSE listed business, we operate a responsible and transparent dividend policy, to provide a steady income stream to our shareholders, over 50% of which are UK based investors, including pensions funds. Our Group dividend policy is separate and different to the dividend policy of our regulated water businesses, and over the period 2020-2024 was set to deliver a stable base dividend, growing with inflation (CPIH) plus 2%.

We note that until 2020, Pennon Group plc consisted of two core operating subsidiaries, South West Water and Viridor Waste Management. In March 2020, Viridor was sold for £4.2bn, leading to a substantive change in the structure of the Group.

To position the group sustainably and allow reinvestment in UK Water, in 2021 nearly 50% of the proceeds from the sale of Viridor were reinvested in the Group and the UK Water sector. As such, the Pennon balance sheet was de-geared by £1.2 billion; a further £100million was injected into Pennon's principal pension scheme; £100 million into South West Water to support further investment above the regulatory business plan and Bristol Water was acquired for £400 million. The remainder of the Viridor proceeds were returned to Pennon shareholders through a special dividend of £1.5bn in 2021 and a share buy back process.

In February 2025, to fund the £3.2bn investment programme agreed as part of the 2025-2030 regulatory price determination, we completed a successful equity rights issue for £490m to support ongoing investment into the Water businesses. At the same time, the Pennon Group dividend policy to 2030 was rebased from 2024/25 to grow in line with CPIH inflation.

1. Equity injections into the Water Business since 2020

As a UK listed business, working in a long term regulated business, we are focused on ensuring a sustainable and responsible approach to funding the regulated water businesses that we own. This includes ensuring they have a sustainable and resilient balance sheet.

Given the record levels of investment over the last few years, as well anticipated ongoing investment to 2030, we have continued to inject equity into the regulated water businesses to ensure a strong and resilient financial position in these companies.

Over the last 5 years we have provided c.£530 million of shareholder equity capital into the water business:

Equity capital injections	Date	SWW/BRL	SES	Water Business
Equity capital injection and repayment of equity-like loans following the sale of Viridor	Feb / Nov 2022	£117m*	-	£117m
Acquisition of SES – securing financial resilience	Mar/ Dec 2024	-	£35m	£35m
Allocation of proceeds from the rights issue	March 2025	£330m	£50m	£380m
TOTAL		£447m	£85m	£532m

This will ensure we fund and manage the business for the long-term benefit of our customers and stakeholders. In particular, at the point we acquired SES Water, it was categorised by Ofwat as 'Action Required' in terms of financial resilience; the additional equity funding provided by Pennon Group has made a step change in its financial resilience, bringing it within the regulatory guidance for gearing levels and reducing financing costs going forward.

2. Water business dividend policies and approach

Water business dividend policies

The Water Businesses have dividend policies that are separate to Pennon Group and are aligned with Ofwat's guidance. These are clearly disclosed within the Annual Performance Report or Annual Report and Accounts published each year. Our policies are reviewed regularly to ensure they reflect latest guidance and feedback from Ofwat, as well ensuring they maintain sustainable financial metrics and ratios for the companies.

On acquisition of additional regulated businesses, we align the dividend policies of the acquiree to the South West Water policy. As such, the dividend policy for Bristol Water (now legally transferred into South West Water) aligns with South West Water's approach, and we have aligned the SES Water position at the 2024/25 financial year end.

The dividend policy is well established and reflects:

- *Base dividends* – derived from the price determination and made with reference to Ofwat's assessment for a notional balance sheet and paid in the year
- *Outperformance dividends* – linked to business performance and outcomes delivered ahead of business plan commitments (totex, ODIs and financing), paid a year in arrears to allow for finalisation and assurance over regulatory and performance metrics
- *Other dividends* – payments designed to ensure that key financial ratios are optimised, and gearing remains aligned with Ofwat's notional level, which has historically been set in the range of 55-65% and does not exceed 70% gearing
- *Total dividend payments* restricted so as to not exceed the retained underlying profits in any year, except as a result of a special dividend or balance sheet restructuring, or where there is a significant non-underlying non-cash impact (such as deferred tax).
- *Performance Dividend* payments are designed to ensure that statutory obligations and key financial ratios are not prejudiced, that customer, environmental and other stakeholders are

considered, and that the Company has adequate resources to carry out its work now, and into the future.

- *Dividend payments* are scrutinised and approved by the Board annually.

Water Business Dividends

How performance is taken into account

As outlined in the water business dividend policy summarised above, the overall performance of the business is taken into account when assessing the level of dividend to be declared and/or paid.

Consideration includes delivery against the Performance Commitments (PCs) set out in the Final Determination from Ofwat. These PCs set targets for the overall level of service to customers and the environment and includes key measures such as leakage, interruptions to supply, water and wastewater compliance, pollutions, sewer flooding and customer service.

Where performance is above/below target, this is carefully considered and taken into account. It is also noted that companies receive a reward/penalty which is incorporated into consideration of dividends to be declared. Financial performance is also considered against regulatory allowances and where expenditure or financing costs are above or below allowances, this will impact the total returns which can be distributed.

Over the past five years, dividends have been restricted in [two] of the five years, and the 2023/24 dividend of £45m is declared but not paid. Discussions on the declaration of dividends relating to the 2024/25 financial year are yet to take place with the Board.

In line with the regulatory framework and the policy described above, shareholder value / returns are based on:

- Base dividend returns (which for K7 has been 4.0%);
- Growth in Regulatory Capital Value (RCV) including inflation; and
- Outperformance or underperformance against customer, environmental and asset health performance commitments.

As outlined in the dividend policy, normal dividend payments are restricted by the company level of profits and therefore a proportion of shareholder value reflects the deferral of returns.

The table below outlines the total shareholder returns delivered, against the actual dividends declared and paid.

	Water business £m
Total shareholder returns – 2020-2025 per dividend policy	c.910
Dividends declared and paid (to 31 March 2025)	c.200
Retained value in water businesses	c.710
<i>Including dividends declared, not yet paid</i>	45

With shareholder funding provided to the Water Business of £532million in the same five-year period, whilst £202million of dividends have been paid, a net £330m of value has been injected into the water businesses by Pennon Group over the 2020-2025 period.

4. How these policies have changed over the past five years

Dividends:

As noted above, the base dividend policy for Pennon Group plc over the period 2020-2024 has been an inflation linked policy of CPIH +2%. Following a rights issue in 2025, the dividend policy to 2030 was rebased to include the dividend from 2024/25 and is now CPIH linked.

For South West Water, the dividend policy has remained consistent across the past five years. For Bristol Water and Sutton and East Surrey Water, dividend policies have been aligned with South West Water subsequent to their acquisition and integration into the Group.

Legal fees advertising fees

Over the past five years, the water businesses have not incurred any legal costs as a result of initiating action—such as judicial reviews—against regulators like Ofwat, the Environment Agency, or the Drinking Water Inspectorate, reflecting a constructive and cooperative regulatory approach. Advertising is not part of our strategy; we do not engage in brand promotion, sponsorships, or visibility-driven marketing, and have no plans to do so. Our focus is on non-promotional, customer-driven communication—raising awareness of water efficiency, financial support, public health, and environmental behaviours.

Legal Expenditure Related to Regulatory Bodies

Our water businesses have not incurred any legal costs associated with initiating action against regulators such as Ofwat, the Environment Agency, or the Drinking Water Inspectorate over the past five years. As part of responding to enforcement action we may raise specific legal arguments, but we have not pursued judicial reviews or initiated similar legal claims against these bodies.

Advertising fees

Advertising is not part of our strategy; we do not engage in brand promotion, sponsorships, or visibility-driven marketing, and have no plans to do so. Our focus is on non-promotional, customer-driven communication—raising awareness of water efficiency, financial support, public health, and environmental behaviours.

Advertising Expenditure and Rationale

We do not engage in advertising in the traditional or commercial sense. Our strategy does not include brand promotion, sponsorships—such as weather segments—or marketing campaigns aimed at increasing visibility or enhancing reputation. We may from sponsor local events as we look to support the region, but overall, advertising is not part of our approach, and we have no plans to incorporate it in the future.

In 2021, we trialled a one-off, limited campaign in response to customer requests for more visibility into our work – particularly around our Green Recovery initiative (during the Covid pandemic). This campaign, costing £350k, featured our own employees and aimed to build trust. However, it had limited impact, and we have not repeated this approach.

Instead, our focus is on customer communication and public information. We engage with our customers to provide essential updates, raise awareness of support services, and encourage positive environmental behaviours. These activities are not promotional—they are about delivering value, transparency, and support to the communities we serve.

Our communications include:

- Water efficiency campaigns – to help customers reduce usage and lower bills.
- Promotion of the Priority Services Register (PSR) – ensuring vulnerable customers are aware of and can access additional support.
- Affordability and financial support schemes – raising awareness of help available for those struggling with bills.

- Public health and environmental messaging – such as “what not to flush” campaigns to reduce blockages and pollution.
- Community engagement – providing information on customer drop-in events, workshops and WaterShare+ events.

These efforts are shaped by customer feedback and research, which informs of the information that customers wish to see.

We do not advertise, and none of our communication costs are funded through specific requests to Ofwat or included in regulatory allowances.

Replacement rates of assets

We follow a targeted, risk-based approach to asset replacement, with investment guided by long-term asset management models and a focus on serviceability and resilience. While water mains renewal rates are currently lower than in previous AMPs, this reflects a strategic shift across the sector toward smarter, more sustainable asset management, whilst reflecting historical programmes, such as our Section 19 obligations which resulted in previously higher renewal rates, particularly for South West Water.

For AMP8, our planned renewal rates are increasing, underpinned by 40-year deterioration and performance models, ensuring economic efficiency and long-term asset health. We have ensured sufficiency of our renewals through model-driven investment planning, with PR24 outcomes mandated by Ofwat aligned with our forecasts—reinforcing confidence in the robustness of our approach.

1. Replacement rates for assets during AMP7

Serviceability has improved dramatically since privatisation driven by proactive, data-informed maintenance. We use targeted and risk-based approaches to identify issues and target asset replacement – so that renewals are prioritised based on criticality, condition, and performance, with a focus on continuing to drive service resilience and environmental improvements.

During AMP7 (2020–2025) we have replaced or refurbished pumping stations, treatment works, and sections of the water and sewerage network. The replacement rate has been aligned with our asset management strategy and long-term planning models, ensuring that investment is directed where it delivers the greatest value and risk mitigation.

For infrastructure assets (water mains and sewers), we report this as a percentage renewal rate per year. For non-infrastructure assets (treatment works and pump stations) - it is more complex as these sites consist of multiple assets/equipment of varying lifespans, with assets where component parts may be replaced multiple times prior to wholesale replacement.

Water main renewals: below we set out the data on mains renewals. The data is provided for:

- South West Water, split in line with how Ofwat assesses costs and performance:
 - SWB – the region of Devon, Cornwall and Bournemouth
 - BRL – the Bristol region
- SES Water

Note 2024-2025 figures are in the process of being compiled and audited for the APR submission

Company	2020-21	2021-22	2022-23	2023-24
BRL	0.25%	0.13%	0.12%	0.11%

SES	0.10%	0.23%	0.46%	0.18%
SWB	0.04%	0.09%	0.05%	0.06%
GROUP AVG	0.13%	0.15%	0.21%	0.11%
SECTOR AVG	0.13%	0.14%	0.16%	0.11%

As one of the few companies operating across multiple regions (due to recent acquisitions of Bournemouth, Bristol and SES) – we see many regional differences that need to be considered when setting investment strategies for mains renewals, for example, different historical replacement rates, differing asset bases and different operating regimes.

Due to these complexities we use sophisticated whole life asset deterioration and performance models to help develop the 'optimal' (economically efficient) level of proactive investment required to achieve our overarching business objectives in each of our regions. These models take a forward-looking view over a 40-year planning horizon when evaluating whole life costs and benefits. These models were used to develop our investment plans for PR24, and they showed that the optimal renewal rate for our South West region to be much lower than our Bristol region.

Therefore, the replacement rates above should be considered in the context of historic investment as well as investment in other assets/needs. We tend to see investment rates for different assets going through cycles, and it upon us to manage these investment cycles and risks.

In AMP1 to AMP5 (i.e. the period following privatisation of the water sector) the sector was focused on Section 19: the water quality driven programme of mains renewals. During this time replacement rates were regularly over 1% per annum. More recently, including AMP7, the focus of the company (and sector) has been on network pressure management and calm networks in order to maximise the life of our assets and improve service to customers in the most cost-effective way. This has effectively reduced the likelihood of bursting mains and leakage.

Sewer and rising main renewals – our AMP7 sewer renewal rates (rehabilitated or refurbished) are tabulated below.

Company	2020-21	2021-22	2022-23	2023-24
Sewers	0.07%	0.05%	0.08%	0.04%
Rising mains	0.16%	0.16%	1.40%	1.39%

Our AMP5 and AMP6 sewer renewal rates averaged 0.25% and 0.17% respectively. South West Water's Clean Sweep programme installed and modernised a significant proportion of our wastewater network. As those assets begin to reach the end of their design life our planned, data-driven renewal strategy will commence, building on the legacy of Clean Sweep.

2. How replacement rates will change in AMP8

Water mains – we set out our planned asset renewal rates for AMP8 below.

Company	2025-26	2026-27	2027-28	2028-29	2029-30
BRL	0.45%	0.60%	0.75%	0.60%	0.60%
SES	0.23%	0.30%	0.38%	0.30%	0.30%
SWB	0.23%	0.30%	0.38%	0.30%	0.30%

At PR24 Ofwat set a mandatory baseline average of 0.3% of mains renewals per year from base expenditure. This applies across the industry, and this is our planned renewal rate, however for SWB this differs from our underlying modelling, which suggests a lower renewal rate would maintain stable service.

For BRL, our modelling suggested a renewal rate of c.0.3% was required and therefore this is what we included within our business plan. In addition, we included investment for extra mains renewals for water quality and leakage reasons. Both were supported by Ofwat which has increased our average planned renewal rate to c.0.6%.

Sewers and rising mains – planned asset renewal rates AMP8

Company	2025-26	2026-27	2027-28	2028-29	2029-30
Sewers	0.18%	0.18%	0.18%	0.18%	0.18%
Rising mains	1.37%	1.37%	1.36%	1.35%	1.34%

3. The assessment of the sufficiency of these rates

We use audited whole life asset deterioration and performance models to help develop the ‘optimal’ (i.e. sufficient and economically efficient) level of proactive investment required to achieve stable or improving serviceability. These models take a forward-looking view over a 40-year planning horizon when evaluating whole life costs and benefits.

Water mains – Ofwat has set a mandatory industry level baseline average of 0.3% of mains renewals per year from base expenditure. Our deterioration and performance models have used to assess the rate required to achieve stable asset health/serviceability, and these support Ofwat’s mandatory rate. We are confident of the sufficiency of our rates on this basis. In addition, for BRL extra mains renewals are required for water quality and leakage drivers, increasing the planned renewal rates to c0.6%.

Sewers and rising mains – our proposed renewal rates for wastewater infrastructure were set from our deterioration and performance models to achieve stable asset health/serviceability. Ofwat did not intervene across the sector to set mandatory renewal rates from base expenditure for wastewater infrastructure, noting ‘*renewal rates have remained stable over time...and asset condition appears good for most companies*’. We can be confident of sufficiency on that basis.

Non-infrastructure assets – Our deterioration and performance models were used to set our investment requirements in our business plan submission for base allowances, and our PR24 final determination was broadly in alignment with our forecast requirements. We are confident of sufficiency on that basis.

Tackling water poverty

We are proud to be the only water company to have eliminated water poverty during AMP7, supporting over 150,000 households and delivering £124 million in targeted assistance. Our AMP8 strategy builds on this success with a £200 million investment to ensure every household can afford their water bill, despite rising costs. We are pioneering tariff innovation to promote fairness and conservation, while expanding auto-enrolment and behavioural change initiatives. Our approach is data-driven, regionally tailored, and rooted in transparency and customer insight. We remain committed to ending water poverty by 2030 through proactive, inclusive, and accountable action.

1. Measuring Water Poverty and Our Success in Tackling It

We are committed to supporting all our customers —particularly those who are financially vulnerable— by keeping water bills as low as possible and ensuring that no one is left behind. On average, our customers pay around £1.85 per day for water services. However, we recognise that affordability is relative and varies significantly across regions.

We define water poverty as any household spending more than 5% of its disposable income on water bills. This metric is tracked across all our regions, with the exception of SES Water, where we are currently developing this capability following its integration into the Group.

To identify customers at risk of water poverty, we use a combination of customer engagement and feedback, internal billing and usage data, and data-sharing partnerships with third-party organisations. We apply our well-developed affordability toolkit to provide targeted support to those in need.

We were the only company to commit to eliminating water poverty during AMP7—a goal we successfully achieved. We measured our progress through affordability surveys, uptake of support schemes, and customer feedback.

At the end of AMP7:

- We delivered £124 million of customer support, including a wide range of targeted support, including affordability tariffs and debt support, WaterShare+, Stop the Drop and other water-saving initiatives
- Over 150,000 households supported through our affordability schemes.

The range of Support Measures in the affordability toolkit:

- Discounted tariffs of up to 85% off for eligible households
- Water efficiency advice, home audits, and free water-saving devices
 - E.g. During the 2022 drought, we distributed over 100,000 devices and offered water butts to interested households
- Water Direct scheme in partnership with DWP, allowing customers to pay bills directly from benefit payments to ensure consistency and avoid debt accumulation
- Behavioural change initiatives such as the *Water is Precious* campaign and progressive tariff trials, which have led to a 2–9% reduction in demand

We tailor our support to reflect regional differences in bill levels. For example, the average bill in Bournemouth is £192, while in South West Water's region it is £680 due to the inclusion of wastewater services. This ensures our support is proportionate and responsive to local needs.

Finally, we continue to champion the principle of a common social tariff across the UK, which we believe would provide greater clarity, consistency, and fairness for customers—particularly as regional disparities in income and bill levels persist.

2. Steps Toward Meeting the 2030 Target to End Water Poverty

We are proud to have achieved zero water poverty across our service areas during AMP7—a sector-leading commitment that we successfully delivered. We recognise that the step-up in investment in AMP8 combined with the of the £50 government contribution in Devon and Cornwall has led to higher bills in 2025. As part of AMP8 we have reaffirmed our water poverty pledge with a dedicated £200 million investment to ensure that every household can afford their water bill.

Our strategy for AMP8 is built on measurable outcomes, customer insight, and continuous innovation. We will continue to track progress through affordability surveys, customer feedback, and the uptake of support schemes, ensuring that our approach remains responsive and effective. In line with our commitment to ensure no water poverty by 2030, we are taking the following steps to meet this goal:

£200 Million Investment in AMP8: We have committed £200 million over the next five years to support customers in financial difficulty. This funding will expand our affordability toolkit, enhance customer outreach, and support the delivery of new, targeted interventions.

Tariff Innovation and Fairer Pricing: we are working with regulators and stakeholders as we trial and implement more innovative tariff structures that promote fairness, conservation, and affordability.

Our tariff trials are exploring how pricing can better reflect essential vs. discretionary use, particularly in regions with high seasonal populations. These include:

- **Seasonal Tariff:** Designed to encourage conservation during high-demand periods.
 - Customers are charged higher rates for water usage during the summer months and lower rates in the winter.
 - Launched in October 2024, this trial involves 3,500 SWW, Bournemouth Water and Bristol Water customers
- **Smart Saver Tariff:** A tiered pricing model that rewards lower water use, which is designed to reward customers for using less water.
 - Customers with smart meters are automatically enrolled in this tariff.
 - The tariff is tiered: Essential Use: The first 46,000 litres are charged at a lower rate. Subsequent usage is charged at progressively higher rates.
 - Launched in April 2024, initial evaluation shows that the trial group are estimated to have reduced their daily water use by 1.9% (4 litres per day on average).

Proactive Engagement and Data Sharing: To effectively target support, we use a combination of government data and income modelling. For WaterSure, we use DWP data to identify eligible customers and verify ongoing benefit status. For WaterCare, we rely on equivalised income data from CACI, which combines socio-economic indicators with our billing data to identify households likely to be in water poverty. This method is more inclusive than benefits data alone, as many affected customers are not in receipt of benefits—prompting us to remove that barrier in April 2023.

Supporting a National Single Social Tariff: We continue to champion the principal of a national single social tariff, which would provide consistency and clarity for customers across the UK, building on the success of our localised approach. If a national Single Social Tariff is not introduced, we would wish to see greater data-sharing to enhance targeting. Where our tools identify a customer in water poverty and other measures such as metering or water efficiency are insufficient, we auto-enrol them onto the WaterCare Tariff. We believe auto-enrolment should be a core feature of any national scheme to reduce administrative burdens for both customers and companies.

We remain committed to transparency, accountability, and collaboration in delivering on our public commitment to end water poverty. We welcome continued dialogue with the Committee and stakeholders to ensure that every household — regardless of income or location — can access safe, affordable water services.

Data transparency

We are committed to transparency, offering open access to accurate, timely data on water quality, storm overflows, and environmental performance. We achieved 100% Event Duration Monitoring (EDM) coverage of our Combined Sewer Overflows a year ahead of target and publish monthly data to support accountability. Our WaterFit platform provides real-time updates on bathing water quality, overflow activity, and investment plans, while our contributions to the National Storm Overflow Hub and local monitoring initiatives further enhance public access. We're also piloting rapid bathing water tests and expanding monitoring to better understand wider environmental impacts – reinforcing our commitment to openness and continuous improvement.

We recognise that water is a public good, and we are committed to transparency in how we manage and report on water quality and security. We believe that open access to accurate, timely data empowers customers, campaigners, and communities to make informed decisions and hold us accountable.

1. Data on Water Quality and Security

We routinely publish a wide range of data related to water quality, storm overflows, and environmental performance. This includes:

Event Duration Monitoring (EDM)

We monitor 100% of our Combined Sewer Overflows (CSOs) using Event Duration Monitors (EDMs), achieving this milestone in December 2022 – one year ahead of the regulatory target. Event Duration Monitoring (EDM) is used to track the activity and duration of storm overflows. While EDMs do not measure the volume of discharge, they provide data on when and for how long storm overflows are active. Data is collected at intervals of at least every 15 minutes, and sometimes as frequently as every 10 seconds. However, it is important to note that EDMs can be triggered by non-sewage events such as twigs or foam, leading to false positives.

South West Water was one of the first companies (recognised by the Information Commissioner) to publish start/stop EDM data on our website. Monthly reports are now published, with data up to the end of the previous month released on the last Friday of the following month.

WaterFit

WaterFit is South West Water's initiative aimed at improving water quality and reducing reliance on storm overflows. Our dedicated online platform provides real-time information on:

- Bathing water quality across the region
- Storm overflow activity
- Planned and ongoing investment to reduce spills and improve water quality

One of the key features of WaterFit is WaterFit Live, an interactive map that provides near real-time data on storm overflow activity and bathing water quality. Additionally, WaterFit promotes transparency by showing where and how South West Water is investing to improve infrastructure. The overarching goal of WaterFit is to make the South West a leading region for water quality.

This platform is updated continuously and is accessible to the public, including residents, visitors, and environmental groups.

National Storm Overflow Hub

The National Storm Overflow Hub serves as a centralised platform that aggregates storm overflow data from water companies across the UK. The hub shares activation and deactivation data from EDMs, as well as Storm Overflow Action Plans (SOAP). These plans outline how companies intend to reduce overflow events, providing valuable insights for public and stakeholder understanding. By sharing data through the Hub, organisations such as Surfers Against Sewage (SAS) and local communities can access the information they need.

River Monitoring Initiatives: Through projects like the Dart and Tavy bathing water trial, we have worked with local stakeholders since 2022 to monitor river usage and environmental impact. This has supported the designation of four new bathing sites on the River Dart for 2024.

Bathing waters sampling.

Designated bathing waters have an official classification issued by Defra which is based on water sampling data collected during the peak bathing season, May to September.

We know many people go into the water outside these times and we wanted to improve our understanding of water quality at these sites outside of peak season providing invaluable information for customers and other stakeholders, as well as helping to inform our improvement initiatives.

As a result, South West Water has undertaken a voluntary enhanced sampling programme (from July 2024 – April 2025) at 14 sites which has enabled us to build up a detailed picture of how different factors (such as waste from animals, run off from roads, agricultural run-off and storm overflow activity) influence water quality in the colder months. The data we've collected will help us to understand where sources of pollution originate, helping to protect water quality. In addition, as part of this one-of-a-kind sampling initiative has also trialled quick bacti-tests that do not rely on laboratory testing. We are sharing these results with a number of stakeholders including the Environment Agency.

2. Scope and Limitations

While we focus on publishing data related to our own network and assets, we currently do not publish data on other potential pollution sources. This approach reflects regulatory requirements and stakeholder feedback, which prioritised clarity and relevance over the complexity of attributing pollution from multiple sources. We are, however, committed to expanding our monitoring and reporting capabilities to better understand and communicate our environmental impact. This includes extending flow and discharge monitoring across our network.