August 2026

Notification of the PR24 cost change process draft determination for Severn Trent Water

Ofwat

James Jesic
Chief Executive Officer
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Severn Trent Centre
2 St Johns Street
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Dear James,

Cost change draft determination 2026

13 August 2026

I enclose in Appendix 1, the cost change draft determination by the Water Services Regulation Authority (Ofwat), including proposed changes to Price Controls for the period from 1 April 2027 to 31 March 2030.

This draft determination is published on our website. We also publish the following documents, which support our cost change draft determination for Severn Trent Water:

- Cost change draft determinations 2026 - Sector Overview;
- Cost Change Draft Determinations 2026 – Price control deliverables appendix;
- Cost Change Draft Determinations 2026 – Asset health cross cutting issues appendix;
- Cost Change Draft Determinations 2026 – Asset health and growth PCDs; and our suite of
- Cost change draft determinations 2026 models.

In accordance with sub-paragraph 15ZA.1 of Condition B: Charges of Severn Trent Water Limited's appointments as a water and sewerage undertaker, Ofwat now gives notice of its intention to determine the questions set out in sub-paragraph 15ZA.3 of Condition B in relation to the following Eligible Item(s):

  - 3. Asset Health

I enclose the following additional information relevant to our decisions within the appendices of this document:

Appendix 2: the impact of our draft determination on Severn Trent Water's customers' bills from 1 April 2027 to 31 March 2030 and price controls.

Appendix 3: Our draft determination on how Severn Trent Water's expenditure allowances are funded

Appendix 4: Our detailed assessment of, and decision on, Severn Trent Water's submitted claims.

Severn Trent Water should ensure that it reads all the information referred to above before responding to this consultation. The closing date for responding to this draft determination consultation is 24 September 2026. Severn Trent Water has published its cost change submission on its website. We include a link to this publication on our website.

Yours sincerely,

Helen Campbell

Executive Director, Delivery

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Appendix 1: Cost change draft determination

In Severn Trent Water's 2026 cost change submission, we received five claims across the following cost areas:

- Asset Health: boreholes
- Asset Health: water network storage assets
- Asset Health: gravity sewers inspections
- Asset Health: gravity sewers rehabilitation
- Growth: growth at sewage treatment works

Table 1 below provides a summary of our draft determination total cost change expenditure allowance compared to the cost change expenditure you requested in your submission. We explain our decisions in Appendix 4 of this document.

Table 1: Breakdown of the difference between Severn Trent Water's view and Ofwat view of costs (£million, 2022-23 FYA CPIH prices)

	2025-30 period	2030-35 period
Company total cost change claim	465.6	15.7
Ofwat 'insufficient evidence of need' or 'out of scope of cost change process' assessment[1]	-148.3	0.0
Company total 'in scope' cost change claim[2]	317.3	15.7
Ofwat 'best option' challenge[3]	0.0	0.0
Ofwat efficiency challenge[4]	-3.9	0.0
Ofwat draft determination cost change allowance	313.4	15.7

Our draft determinations include price control deliverables (PCDs) to hold Severn Trent to account for delivery. Our approach to PCDs is set out in the Cost Change Draft Determinations 2026 – Price control deliverables appendix. Please note that the cost change allowances above incorporate a late correction to the modelling inputs for our draft determination decision for water asset health. However, due to time constraints, this change has not been reflected in the draft determination PCDs.

The impact of our draft determination for revenue and regulatory capital value (RCV) adjustments by price control are set out in tables 2 and 3 below.

[1] Details of costs excluded are set out in Appendix 4.
[2] The company's total eligible cost claim that demonstrates the need for the required step change in investment and is within the scope of the cost areas.
[3] Our review of the company's evidence of optioneering and associated cost benefit analysis and that the options put forward are the best option for customers.
[4] Our review of the company's evidence of efficient unit costs and associated methodology.

Table 2: Severn Trent Water's draft determination revenue adjustments by price control and when they apply (£million, 2022-23 FYA CPIH prices)

	Water resources	Water network plus	Wastewater network plus	Bio-resources	Total
Total in-period revenue adjustment for 2027-28	0.634	8.757	3.961	0.000	13.352
Total in-period revenue adjustment for 2028-29	1.228	12.476	3.513	0.000	17.217
Total in-period revenue adjustment for 2029-30	1.497	15.814	3.382	0.000	20.694
Total end of period revenue adjustment at PR29	0.000	0.000	30.445	0.000	30.445

Table 3: Severn Trent Water's draft determination RCV adjustments by price control (£million, 2022-23 FYA CPIH prices)

	Water resources	Water network plus	Wastewater network plus	Bio-resources	Total
Total end of period RCV adjustment at PR29	13.014	182.306	73.576	0.000	268.896

Table 4 sets out the impact of our draft determination on the company's last determined price controls[5].

Table 4: Draft determination changes to price controls for Severn Trent Water

Price control		2025-26	2026-27	2027-28	2028-29	2029-30
Water resources (K factors)	Last determined	10.92	3.50	-11.48	8.44	4.28
	Revised	10.92	3.50	-11.02	7.91	4.28
Water network plus (K factors)	Last determined	34.51	7.34	9.40	0.58	-1.03
	Revised	34.51	7.34	10.30	-0.21	-1.03
Wastewater network plus (K factors)	Last determined	-5.67	14.05	11.66	6.92	4.81
	Revised	-5.67	14.05	12.12	6.50	4.81
Bioresources (unadjusted revenue, UR_t £m, 2022-23 FYA CPIH prices)	Last determined	134.397	135.162	136.438	138.255	140.211
	Revised	134.397	135.162	136.438	138.255	140.211

[5] For Severn Trent Water, the last determined priced controls are those updated for the 2025 blind year reconciliation.

Appendix 2: Impact on Severn Trent Water's customers' bills and price controls

The average bill increase for customers of Severn Trent Water, in absolute and relative terms, is set out in table 5. This is the average bill increase for all customer classes as a result of our cost change decisions. The bill increase for each customer class will be different.

Table 5: Average bill increase above the PR24 final determination due to cost change process[6]

Company	2027-28 £	2029-30 £
Severn Trent Water	3	5

[6] This is the average bill increase for all customer classes as a result of our cost change decisions when compared to the average bill from the 2024 final determination. The bill increase for each customer class will be different.

Appendix 3: Our decisions on how we fund Severn Trent Water's expenditure allowances

Severn Trent Water requested in-period funding for its cost changes allowances in its submission.

The cost change guidance notes set out our approach to assessing whether to provide in-period or end of period funding for allowed expenditure. The factors we consider are summarised in section 5 of PR24 Cost change draft determinations 2026 – Sector overview document. Where we provide in-period revenue adjustments, this consists of:

- any pay as you go expenditure reflecting opex allowances;
- allowed return on any committed additions to RCV, based on the allowed return in companies' PR24 determination;
- run-off on any committed additions to RCV based on the final determination RCV run-off rates for the relevant wholesale controls; and
- where applicable, we will also provide issuance costs for additional required equity identified within the financial model at the same rate as for the final determinations of 2.5% of new equity.

For Severn Trent Water we allow in-period funding for some of the allowed expenditure. Details of the revenue adjustments are set out in appendix 1 of this document. Our decision reflects our consideration of the relevant factors in the round.

- We provide in-period revenue funding for £257.9 million allowed expenditure during the 2025-30 control period related to asset health. This funding will allow Severn Trent Water to progress this work during the current price control period. We will make an adjustment to RCV at 31 March 2030 for allowed totex not recovered in-period.
- We do not provide in-period funding for £55.5 million of allowed expenditure for Severn Trent Water's growth claim. The company did not request in-period funding, and this is not available for growth related expenditure in the 2026 cost change process, although this may be possible for 2027.[7] Funding for the growth allowances will be provided through an adjustment to RCV at 31 March 2030 and an adjustment to revenues over the 2030-35 price control period.
- We do not provide in-period funding for £13.1 million of allowed expenditure for Severn Trent Water's gravity sewers inspections claim. We set out in our PR24 Cost change guidance for gravity sewers, that any adjustments to allowances for increased gravity sewer inspections would be funded through an end-of-period adjustment.[8] Funding for the gravity sewer inspections allowances will be

[7] We recently published a licence modification consultation which would allow in-period funding for growth from 2027. Ofwat, 'Demand-Growth-Cost-Change-Licence-Modification-Consultation.pdf', July 2026
[8] Ofwat, 'PR24 Cost change process: Gravity sewers investment assessment guidance' February 2026, p. 9

provided through an adjustment to RCV at 31 March 2030 and an adjustment to revenues over the 2030-35 price control period.

In our assessment we carefully considered the financial impact of the additional expenditure we allow and how a company is progressing against delivery of its existing investment programme. We set out our assessment of these below.

Our assessment did not identify a financeability constraint for Severn Trent Water. However, we consider the company has provided evidence that the company remains on-track to deliver its commitments over the 2025-30 price control period. Severn Trent Water also provided evidence that customers supported paying for the additional investment during the current price control period. Consequently, our draft determination is to provide in-period funding for the allowed asset health expenditure. We will provide an adjustment to RCV at 31 March 2030 for the allowed costs not recovered in-period.

We expect Severn Trent Water to set out, or update, its consideration of the impact of both the cost change and outcome delivery incentive (ODI) payment processes in its response to the draft determination[9]. This should take account of our draft determinations and its view of this and any other factors or changes since it submitted its claims during the March to May window. This should take account of the latest view on progress on delivering existing investment programmes.

A3.1 Delivery assessment

2025-30 delivery

We reviewed the company's May 2026 delivery plan update. On balance, although we have concerns about the company's output forecasts, overall, we consider that the company provides sufficient and convincing evidence to demonstrate that it remains on track to deliver its PR24 commitments by the end of 2025-30 period. We provide a summary of our assessment below for water and wastewater.

Water

In its May delivery plan update, the company showed the following positive indicators in relation to 2025-30 delivery progress for water:

- The company showed good progress in relation to water price control deliverable (PCD) outputs, delivering above baseline target in 2025-26 (see section below on delivery in 2025-26).

[9] Ofwat, 'IN 26/01 Submission of cost change applications', February 2026

- The company reported meeting most of its interim milestones (89%) in 2025-26.
- The company is forecasting to have 78% of its capital projects in construction or delivered by the end of 2027-28.
- The company remains confident that it will deliver all of its PCD outputs by the end of 2025-30 period and even exceed its targets.

However, the company underspent its water PCD allowances in 2025-26 by 37%, suggesting there may be some slippage in its delivery plan. The company is forecasting to underspend allowances by 5% by the end of the 2025-30 period.

Wastewater

In its May delivery plan update, the company showed mostly positive indicators in relation to 2025-30 delivery progress for wastewater:

- The company showed good progress in relation to wastewater PCD outputs, delivering significantly more than baseline target in 2025-26 (see section below on delivery in 2025-26)
- The company reported meeting most of its interim milestones (93%) in 2025-26.
- The company spent most of its water PCD allowances in 2025-26 and is forecasting to slightly overspend PCD allowances by the end of 2025-30 period.
- The company remains confident that it will deliver 100% of its PCD outputs by the end of 2025-30 period and even exceed its targets.

Delivery in 2025-26

Based on its May 2026 delivery plan update, the company has demonstrated that it is not behind delivery in 2025-26:

- On water, the company reported delivering 3% more PCD outputs (in value terms) in 2025-26 compared to baseline target.
- On wastewater, the company reported delivering 1% more PCD outputs (in value terms) in 2025-26 compared to baseline target.

A3.2 Financeability assessment

Severn Trent Water requested in-period funding within its cost change submission. Severn Trent Water provided key financial ratios, gearing, adjusted interest cover (AICR), and funds from operations to net debt (FFO/net debt) assuming in-period revenue adjustments. Whilst there was some deterioration in financial metrics over the 2025-30 price control period, all ratios were above the guidance for the target credit rating of Baa1/BBB+. The company also provided the financial ratios assuming funding was provided at the end of the period. Financial ratios showed a sharper decline but remained consistent with the target credit rating.

Severn Trent set out that the analysis showed a material deterioration of its credit metrics on a notional and actual basis. Whilst it recognised that its current credit metrics support some degree of additional financing, it considered that maintaining its strong position at this stage of the current price control period would allow it to respond in a timely and effective way to new substantive challenges that may arise later in the period.

The company recognised that growth and sewer inspections were not eligible for in-period revenue adjustments. However, it considered that allowing in-period revenue adjustments for these areas would better align with customer interests and with broader government policy priorities. Severn Trent Water considered that the bill impacts, which it said were supported by customers, would avoid larger bill increases brought about by an end-of-period adjustment.

We have set out our approach to assessing financeability in annex A2.2 of the PR24 cost claim draft determinations 2026 sector overview document. We have assessed Severn Trent Water's financeability on the basis of the notional capital structure within a copy of the final determinations financial model by adding in the additional cost allowances in our draft determination. We have maintained other assumptions, including the allowed return on capital, in line with the final determination that applied to Severn Trent Water. Our financeability assessment assumes the company spends its totex allowances according to the profile set out in the final determinations and has no under- or out-performance.

In the round, we consider that Severn Trent Water remains financeable without the provision of in-period revenue adjustments. AICR on average over 2025-30 remains above the guidance for a Baa1/BBB+ rating, and for each of the years from 2027-30. FFO/net debt is marginally below guidance on average at 9.8% versus 10.0%, but this is driven by low ratio in the first two years of the price control period. FFO/net debt is above guidance for all years from 2027-30. We consider that on average the financial ratios support the target credit rating for the remainder of this price control period.

Appendix 4: Our assessment of and decision on Severn Trent Water's submitted claims

This appendix sets out our detailed assessment of, and decision on. each of the company's 2026 cost change claims. It should be read alongside the following documents specified in the first page of this draft determination.

In its response to the draft determination, the company should confirm, to the extent that it has not already done so, which proposed schemes could impact sites of special scientific interest (SSSIs) or land in National Parks, or areas of outstanding natural beauty.

A4.1 Asset health

4.1.1 Boreholes

Assessment criteria	Assessment	Decision	
		Criteria	Adjustment (applied and/ or conditional)
Summary of request	Severn Trent Water requests £25.41 million additional investment for borehole asset health in the 2025–30 period to address deterioration across its asset base. The programme includes 8 interventions across 5 sites, comprising of the replacement of three boreholes, relining of three boreholes and backfilling/structural safeguarding of two boreholes.		
Need for a step change in investment	**Decision summary– Conditional Pass** We exclude £10.33 million of costs which are out of scope for asset health. [10] **Conditional Pass** - For [redacted] (£8.55 million), the need for investment is conditional on the existing borehole having been out of supply only since October 2023; if the outage commenced earlier than this, the intervention would be more appropriately characterised as restoring	**Conditional Pass**	**(£10.33 million) +£8.55 million conditionally**

[10] Costs of sites excluded have been calculated using (1) Severn Trent Water, 'SVE Asset Health- Borehole', May 2026, Figure 3.9, as well as the query response 'OFW-SVE-CCP-015 – July 2026'

Assessment criteria	Assessment	Decision	
		Criteria	Adjustment (applied and/ or conditional)
	resilience rather than addressing asset health risk, and the costs would be excluded. Further detail is provided in our Cross-Cutting issues appendix.[11] **Pass** - For the remaining £6.54 million, the company provides a sufficient and convincing evidence that the proposed investment meets the 'Need for step change in investment' criteria. **Company evidence** - The company provides evidence of the historical and current condition of its borehole asset base. It reports that it has invested approximately £50 million per Asset management period in borehole maintenance, with around 13% renewal in the period 2015 to 2025, but states that asset condition has continued to deteriorate over this period.[12] It presents condition data showing that a significant proportion of assets are in poor condition, reporting that a significant portion of boreholes are in poor condition, perform poorly and/or are highly critical.[13] The company identifies asset ageing as a key driver of risk. It provides analysis demonstrating that older boreholes are more likely to be in poorer condition and at higher risk of failure.[14] Its forward projections show that under current investment levels, asset health does not improve, with more assets moving into poorer condition over time, including an increasing number of assets over 80 years old, which are associated with a higher risk of permanent failure.[15]		

[11] 'Cost Change Draft Determinations 2026 – Asset health cross cutting issues appendix', section 4
[12] Severn Trent Water, 'SVE Asset Health- Borehole', May 2026, section 1.2, p. 6, Figure 1.1 and company commentary on page 6
[13] Severn Trent Water, 'SVE Asset Health- Borehole', May 2026, section 1.3, pp. 8–9, figure 1.4, figure 1.5 showing significant percentage are condition grade 4 and 5
[14] Severn Trent Water, 'SVE Asset Health- Borehole', May 2026, section 1.4, pp. 10–11, figures 1.7 and 1.8
[15] Severn Trent Water, 'SVE Asset Health- Borehole', May 2026, section 1.4, page 10, Figure 1.7

Assessment criteria	Assessment	Decision	
		Criteria	Adjustment (applied and/ or conditional)
	The company provides evidence of stakeholder and customer engagement. It states that it has engaged with regulators including the Drinking Water Inspectorate (DWI) and Environment Agency and presents customer research showing that 71% of household customers and 84% of non-household customers find the proposed investment acceptable. The company states that the DWI supports the proposal, but no formal letter of support from the DWI was provided.[16][17] **Our Assessment** - We accept the company's view of 'what base buys' (implicit allowance) across its asset proposals, which is clear and in line with a view of what base buys based on historical sector expenditure rates. This provides reassurance that the requested investment is incremental to base allowances, and that customers are not paying twice for investment.[18] The company provides a sufficient and convincing evidence that there is deterioration across its borehole asset base and a credible need for increased investment.[14] A significant proportion of assets are in poor condition, and risk is expected to increase over time due to ageing assets and insufficient renewal under current investment levels. The company's modelling provides evidence that, for assets currently in service, additional intervention is required to stabilise asset health. The need for investment is supported by our assessment that there is a sector-wide health issue for boreholes. This indicates that poor health of boreholes reflects a broader, systemic challenge which may require additional allowances.[19]		

[16] Severn Trent Water, 'SVE Asset Health- Borehole', May 2026, section 1.6, pages 17–18, Figure 1.14
[17] Severn Trent Water, 'SVE Asset Health- Borehole', May 2026, section 1.6.1, page 16
[18] Our assessment and further detail can be found in 'Cost Change Draft Determinations 2026 – Asset health cross cutting issues appendix'
[19] Further detail can be found in 'Cost Change Draft Determinations 2026 – Asset health cross cutting issues appendix'

Assessment criteria	Assessment	Decision	
		Criteria	Adjustment (applied and/ or conditional)
	However, we do not consider that the full scope of the proposed investment meets the asset health criteria set out in our guidance. £10.33 million of the requested investment relates to sites that have been out of supply prior to October 2023. On this basis, these costs are out of scope for asset health funding.[20] Further detail is provided in our Cross-Cutting issues appendix.[21] We include the costs associated with [redacted] as the proposed backfilling forms part of a wider scheme to complete commissioning of the site. The schemes involve the redrilling of new boreholes funded through base allowances, with backfilling required to complete the works, and is therefore appropriately included within the cost change process.[22] While the company's submission references support from the DWI, no formal written confirmation has been provided.[23] We require the company to provide formal evidence of DWI support as part of its draft determination response. For [redacted] (£8.55 million), the need for investment depends on the duration of the outage. If the borehole has only been out of supply since October 2023, we consider that the need is demonstrated as the proposed works would be contributing to the improvements of Asset		

[20] Severn Trent Water, Query Response 'OFW-SVE-CCP-015', July 2026
[21] 'Cost Change Draft Determinations 2026 – Asset health cross cutting issues appendix', section 4
[22] Severn Trent Water, Query Response 'OFW-SVE-CCP-015', July 2026
[23] Severn Trent Water, 'SVE Asset Health- Borehole', May 2026, Pg 16, and Severn Trent Water, Query Response 'OFW-SVE-CCP-002', May 2026

Assessment criteria	Assessment	Decision	
		Criteria	Adjustment (applied and/ or conditional)
	health If it has been out of supply for longer, the intervention represents restoration of a previously unavailable asset and more appropriate to and is therefore out of scope.[24] **Decision:** To achieve a pass at final determination the company must provide sufficient and convincing evidence of: Confirmation that the existing borehole at [redacted] has not been out of supply for longer than the date of October 2023. If this evidence is not provided in response to our draft determination, we may conclude that the company has not demonstrated sufficient and convincing evidence to justify the need for a step change in investment for the proposed works at [redacted].		
Best option for customers	**Decision – Pass.** The company provides sufficient and convincing evidence that the proposed investment meets the 'Best option for customers' criteria. **Company Evidence** -The company states that a wide range of options for different types of intervention at each borehole site have been considered. It explains the process adopted in filtering a long list of sites, using condition, performance and criticality to prioritise sites, and applying deliverability constraints to identify a feasible programme.[25] From this process, the company narrows the programme to Priority Group 4 sites, resulting in a deliverable set of 8 borehole renewals across 5 sites, which are taken forward for further assessment. [26]	**Pass**	**0%**

[24] Severn Trent Water, 'SVE Asset Health- Borehole', May 2026, section 2.3.1, p. 27 and section 2.2, pp. 24–26, Figure 2.7; and Severn Trent Water, Query Response 'OFW-SVE-CCP-015', July 2026
[25] Severn Trent Water, 'SVE Asset Health- Borehole', May 2026, section 2.1, pp. 19–21 and Figures 2.1–2.3
[26] Severn Trent Water, 'SVE Asset Health- Borehole', May 2026, section 2.1.2, p. 21, Figure 2.3

Assessment criteria	Assessment	Decision	
		Criteria	Adjustment (applied and/ or conditional)
	For these sites, the company considers a range of intervention options, including relining, redrilling, structural safeguarding, cleaning and decommissioning with alternative supply.[27] It demonstrates that these options are taken forward to cost benefit analysis, and provides evidence of benefit cost ratios for the selected options, which are used to determine the preferred interventions.[28][29] **Our Assessment**- Overall, the company provides sufficient and convincing evidence of how the proposed solutions have been selected using optioneering tools identified in the asset health investment assessment guidance such as cost benefit analysis. The company demonstrates that it has undertaken robust optioneering to identify a deliverable programme and has applied cost benefit analysis at site level to inform option selection. It provides quantified cost benefit analysis and clearly sets out the benefits considered, alongside quantified and qualitative evidence of benefits at both site level and asset class level. The company provides sufficient and convincing evidence to demonstrate the proposed solutions have been selected using a defined process and will address the risks identified.[30]		
Robust and efficient costs	**Decision – Pass.** The company provides sufficient and convincing evidence that the proposed investment meets the 'Robust and efficient cost' criteria.	**Pass**	**0%**

[27] Severn Trent Water, 'SVE Asset Health- Borehole', May 2026, section 2.1.3, pp.22–23, Figures 2.5 and 2.6
[28] Severn Trent Water, 'SVE Asset Health- Borehole', May 2026, section 2.2, p. 24
[29] Severn Trent Water, 'SVE Asset Health- Borehole', May 2026, section 2.2, pp.25–26, Figure 2.7
[30] Severn Trent Water, 'SVE Asset Health- Borehole', May 2026, section 2.3.2, p. 28, Figure 2.9, pp.29–30, Figure 2.10

Assessment criteria	Assessment	Decision	
		Criteria	Adjustment (applied and/ or conditional)
	Company Evidence-The company provides a costing methodology using contractor prices, historical delivery data of comparable assets from its internal database[31]. Costs are developed using a combination of historical unit cost data and bottom-up estimates. The submission details the cost source of each of the cost estimates with justifications and includes scheme-level cost breakdowns showing the principal cost drivers. The submission includes benchmarking using both internal historical data and external comparator estimates[32]. Benchmarking has been applied to 100% of programme costs, with independent external benchmark estimates developed by a third party. Requested costs are below the benchmark costs from the independent estimates. The submission also includes third-party commercial assurance which compares the company's proposed costs against current market cost data. **Our Assessment**- The company provides sufficient and convincing evidence that its costing methodology is robust and costs are efficient. Cost estimates are informed by historical delivery experience, contractor pricing and scheme-level cost build ups, demonstrating that estimates are grounded in actual delivery experience and can be traced back to defined scope. The submission also provides visibility of principal cost drivers through the inclusion of scheme-level cost breakdowns. Benchmarking has been undertaken using both internal and external comparators, covering the full cost of the programme and the results indicate that the proposed costs were approximately 9.5% below independent benchmark levels. This demonstrates that costs are consistent with efficient delivery assumptions. The provision of independent commercial assurance further demonstrates that proposed costs are aligned with current market cost data.		

[31] Severn Trent Water, 'SVE Asset Health- Borehole', May 2026, section 3.1, pp.31 -34
[35] Severn Trent Water, 'SVE Asset Health- Borehole', May 2026, section 3.2, Figure 3.8, p. 35

Assessment criteria	Assessment	Decision	
		Criteria	Adjustment (applied and/ or conditional)
	The submission therefore provides sufficient and convincing evidence that costs are robust and efficient, and no cost challenge is applied at draft determination.		
Customer protection	**Decision – Adequate**. The company provides sufficient and convincing evidence that customers will be protected if the company under-delivers against the investment. **Company evidence** - The company proposes price control deliverables (PCDs) that cover both the investment that will be delivered by existing PR24 base expenditure allowances, and the investment delivered through the requested additional allowance. The investment that will be delivered by PR24 base allowances is based on expenditure, and the investment through additional allowances is defined by the intervention type. The company proposes that the requested additional investment PCD be split into borehole replacement, borehole reline and borehole structural safeguarding components.[33] Separate unit rates for different components are provided, aligned to the cost of scheme delivery. Both the base and requested additional allowance components are end-of-period adjustments, with no time incentive proposed for early delivery. **Our assessment** - The company's proposed non-delivery PCDs are in line with our expectations set out in the asset health guidance document and aligns to the approach set out in the PR24 Final Determination. If the company under delivers, the funding will be returned to customers. **Decision** - To enable us to protect customers, we propose to apply a PCD on the requested additional allowance which is tied to named schemes. Further detail on this PCD can be found in Cost Change Draft Determinations 2026 – Price control deliverables appendix.	**Adequate**	

[33] Severn Trent Water, 'SVE Asset Health- Borehole', May 2026, pp. 37-38

Assessment criteria	Assessment	Decision	
		Criteria	Adjustment (applied and/ or conditional)
Investment delivery plan	**Decision – Pass** The company provides sufficient and convincing evidence that the programme is deliverable. **Company evidence**-The company provides additional information with a delivery plan, including site-level schedules setting out design, procurement and construction activities, durations and sequencing across the programme.[34] It sets out key dependencies and critical path activities, [redacted] planning requirements, abstraction licensing and interdependencies between schemes. The company provides evidence of supply chain engagement and sets out how the programme will be delivered, including information on resourcing and programme delivery.[35] **Our assessment**-The company provides sufficient and convincing evidence to demonstrate the proposed investment is deliverable. It shows alignment between programme scope and delivery capacity, including evidence of supply chain readiness and internal resourcing. The company also demonstrates that schemes are sufficiently developed, with evidence of early-stage planning, design progression and risk mitigation in place to support delivery.[36]	**Pass**	**0%**

[34] Severn Trent Water, Query Response 'OFW-SVE-CCP-003', May 2026, pp. 3-4
[35] Severn Trent Water, Query Response 'OFW-SVE-CCP-003', May 2026, pp. 4–6
[36] Severn Trent Water, Query Response 'OFW-SVE-CCP-003', May 2026

4.1.2 Water network storage assets

Assessment criteria	Assessment	Decision	
		Criteria	Adjustment (applied and/ or conditional)
Summary of request	Severn Trent Water requests £221.7 million of additional investment to replace six network water storage tanks, refurbish five tanks, and upgrade pipework and telemetry at a further three locations, alongside funding to support long-term planning for the management of this asset class. The company states that this is part of a 25-year strategy and represents a step towards a sustainable replacement rate.		
Need for a step change in investment	**Decision summary** - We exclude £7.0 million of the proposed investment, as it is out of scope for asset health[37], this includes £1.6 million investment at sites with out of service assets (proposed for the period 2026-2030) and £5.4 million proposed for preparation expenditure for spend in the period 2026-2030 to support investment delivery period 2030-2035. For the remaining £214.7 million of proposed investment, the company provides sufficient and convincing evidence to demonstrate that the proposed investment meets the 'Need for step change in investment' criteria.[38] **Company evidence** - The company provides evidence to show that over the 2020-2025 period (and expected to continue during the current 2025-2030 period), the majority of its base spend in Network Storage has been targeted towards repair and refurbishment activities, as opposed to replacement activities. [39] It attributes this, both to asset	**Pass**	**£7 million Excluded as out of scope** **0% challenge on £214.7 million in scope request**

[37] Further detail of the scope boundaries applied in the assessments can be found in 'Cost Change Draft Determinations 2026 – Asset health cross cutting issues appendix', section 4

[38] None of the £11.27 million excluded under "need for a step change in investment" relates to work in the 2030-35 period, hence the 2030-35 allowance is not affected by this.

[39] Severn Trent Water, '05_SVE Asset health - Network storage', May 2026, p.6

Assessment criteria	Assessment	Decision	
		Criteria	Adjustment (applied and/ or conditional)
	deterioration and to the number of 1-in-10-year inspections, which have increased from 29 to 122 over the last 10 years. It has shown a historical and future view of asset deterioration, showing investment over time. The company states that 90% of its assets are currently in condition grades 1-3, but its deterioration model shows that by 2050, 166 assets will be in condition grade 4 or 5 (compared to 36 now). [40] The company considers that this would represent a high probability that assets would not be able to be returned to service following a 1-in-10 inspection, putting 40% (c.1,230Ml) of treated water storage at risk of not being available. Because of this, it states that "26 tanks would require replacement every AMP to 2050". The company has used condition and performance data to populate the model, which uses construction material and age as factors, to predict the likelihood of failure. In its proposals, the company provides a breakdown of costs and activities, which allow for the assessment of works in scope[41]. **Our assessment** - We exclude £7 million of costs which are out of scope for asset health (£1.6 million investment at sites with out of service assets and £5.4 million of activities associated with future planning and enabling).[42] The sites, costs and associated exclusions by investment period, from the request are as set out below.		

[40] Severn Trent Water, '05_SVE Asset health - Network storage', May 2026, p.9
[41] Severn Trent Water, '05_SVE Asset health - Network storage', May 2026, Figure 25; Severn Trent Water, Query Response 'OFW-SVE-CCP-018', June 2026.
[42] Further information about the general rationale behind exclusions can be found in 'Cost Change Draft Determinations 2026 – Asset health cross cutting issues appendix', section 4

<table>
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[redacted]

An exception was made for a site [redacted]) where there are currently two out of service tanks. The investment proposal for this site was for a combined solution to resolve asset health issues across both the out of service and in service tanks at the location (i.e. where five cells were to be replaced by a single twin cell tank asset). The investment need in this case was accepted, with all cells graded as poor condition, and asset health, representing the primary driver for intervention. [43] [44]

For the remaining £214.7 million of proposed investment, the company provides sufficient and convincing evidence to demonstrate a proactive approach to management of its network storage assets. It explains the risks associated with not replacing and refurbishing
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Assessment criteria	Assessment	Decision	
		Criteria	Adjustment (applied and/ or conditional)
	assets, with details on how condition has changed over time and how it may change in the future. It uses a combination of: modelling output; assessment against a set of engineering standards; deliverability; and affordability to determine the sites that require intervention in the 2025-2030 period (11 sites and 14 assets are selected). [45] Sites which do not meet the standards for replacement in the 2025-30 period are to be considered for future replacement. This process provides confidence that the sites selected for replacement or refurbishment in the 2025-30 period are ones with the highest need and the proposed investment can be delivered. We accept the company's view of 'what base buys' (implicit allowance) across its asset proposals, which is clear and in line with a view of what base buys based on historical sector expenditure rates. This provides reassurance that the requested investment is incremental to base allowances, and that customers are not paying twice for investment.[46] Our current analysis indicates that there is a sector-wide health issue for network storage assets. We consider that the company has submitted sufficient and convincing evidence that a step change in investment is needed.[47] While the company's submission references DWI support, no formal support evidence is provided. We request that the company provides this with its draft determination response.		

[45] Severn Trent Water, '05_SVE Asset health - Network storage', May 2026, pp. 23-26
[46] Our assessment and further detail can be found in 'Cost Change Draft Determinations 2026 – Asset health cross cutting issues appendix'
[47] Further detail can be found in the 'Cost Change Draft Determinations 2026 – Asset health cross cutting issues appendix'

Assessment criteria	Assessment	Decision	
		Criteria	Adjustment (applied and/ or conditional)
Robust and efficient costs	**Decision summary – Conditional Pass**. The company provides sufficient and convincing evidence to demonstrate that the benchmarked costs are broadly efficient. However, in relation to its unbenchmarked costs, the company should provide sufficient and convincing evidence to demonstrate that these costs are efficient. **Company evidence** - The company applies a mixed costing approach (contractor pricing, framework rates, and historical data from their bespoke internal unit costing tool)[48]; includes direct, indirect and optimism bias components; provides clear cost breakdowns at investment programme and level and site level[49]; and undertakes external benchmarking of costs, with methodology demonstrating alignment to comparator ranges[50]. **Our assessment** - A significant proportion of costs are based on contracted or near-contracted prices, providing confidence in overall cost robustness. External benchmarking (covering around 66% of total costs) provides evidence that the proposed costs are efficient. However, the company has not provided sufficient evidence to explain and justify why the industry benchmark model provided by its third party consultant is materially lower than the third party bottom-up estimate. The company provides a summary of the benchmarking report in a query response, but further clarity is needed to reconcile between the industry and bottom-up benchmarks to provide reassurance that the costs are efficient.	**Conditional Pass – Some concerns**	**10%** **Conditions met: £214.7m** **Conditions missed: £193.23m**

[48] Severn Trent Water, '05_SVE Asset health - Network storage', May 2026, p.32, Figure 28
[49] Severn Trent Water, '05_SVE Asset health - Network storage', May 2026, p.34- Figure 31
[50] Severn Trent Water, '05_SVE Asset health - Network storage', May 2026, p.37- Figure 35

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<tr><td></td><td>In addition, 34% of costs have not been subject to external benchmarking, and aside from one site, no justification has been provided for the exclusion of other sites from the benchmarking analysis. Further evidence is needed to demonstrate that the proposed costs are efficient as contractor pricing alone does not demonstrate efficiency where there is no evidence of competitive tension.

A discrepancy has also been identified between the benchmark values reported in the submission and those presented in the accompanying external benchmarking report. In several instances, the benchmark ranges in the external report vary to those cited in the submission. For example, for one site, the submission presents a benchmark range of £53.8 million to £65.8 million, whereas the external report indicates a lower range of £50.0 million to £61.2 million. On this basis, the company's cost estimate sits above the externally reported benchmark range.

To achieve a Pass at final determination, the company should provide sufficient and convincing evidence to:
• Provide a clear, quantified reconciliation between the independent third party cost estimates and bottom up benchmarking models, showing scope differences, cost components and drivers of variance (including any exclusions from the industry model and inclusion of additional items in bottom up). The company should also explain and reconcile the discrepancy between the company's cost change process submission and the external benchmarking report.</td><td></td><td></td></tr>
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Assessment criteria	Assessment	Decision	
		Criteria	Adjustment (applied and/ or conditional)

	• Demonstrate efficiency of the remaining 34% of costs that have not been subject to external benchmarking. The company should provide evidence to clearly show that proposed costs are consistent with efficient delivery assumptions. In the absence of external benchmarking, this can include evidence of:
	  o internal benchmarking against historic delivery of similar interventions;
	  o Independent third-party assurance confirming the robustness and efficiency of cost estimates; and
	  o evidence of competitive tendering demonstrating that costs reflect market-tested rates.
	If this evidence is not provided, we may apply a 10% cost efficiency challenge at final determination to the requested costs.		

Customer protection	**Decision summary - Adequate.** The company provides sufficient and convincing evidence to demonstrate that customers will be protected if the company under-delivers against the investment. **Company evidence** - The company proposes price control deliverables (PCDs) that cover both the investment that will be delivered by existing PR24 base expenditure allowances,[51] and the investment delivered through the requested additional allowance. The investment that will be delivered by PR24 base allowances is based on expenditure, and the investment through additional allowances is defined at the scheme level. The company proposes two PCDs, one for distribution service reservoirs (DSRs) and the other for water tanks. Separate	**Adequate**	

[51] Severn Trent Water, '05_SVE Asset health - Network storage', May 2026, p.41

Assessment criteria	Assessment	Decision	
		Criteria	Adjustment (applied and/ or conditional)
	unit rates for different components are provided, aligned to the cost of scheme delivery. Both are end-of-period adjustments, with no time incentive proposed for early delivery. **Our assessment** - The company's proposed non-delivery PCDs are in line with our expectations set out in the asset health guidance document and aligns to the approach set out in the PR24 Final Determination. If the company under delivers, the funding will be returned to customers. **Decision** - To enable us to protect customers, we propose to apply a PCD on the requested additional allowance which is tied to named schemes. We have applied time incentives to the proposed investment as it has met our criteria to do so. Further information on our approach to applying PCDs and time incentives can be found in the Cost Change Draft Determinations 2026 – Price control deliverables appendix.		
Investment delivery plan	**Decision summary - Adequate.** The company provides sufficient and convincing evidence to demonstrate that the programme is deliverable. **Company evidence** - The company provides detailed delivery risk information for each site, demonstrating that risks are considered throughout the planning and delivery phases.[52] For its [redacted] largest project, the company states that because of land purchase timing risks, the scheme may be delayed into year 1 of the 2030-2035 period. As a mitigation, its proposed PCD requires it to deliver the scheme no later than 2031. The	**Adequate**	

[52] Severn Trent Water, '05_SVE Asset health Network storage Annex C – AMP8 programme', May 2026

Assessment criteria	Assessment	Decision	
		Criteria	Adjustment (applied and/ or conditional)
	company provides evidence of its stakeholder engagement to help mitigate planning, land purchase, environmental and customer risks to delivery.[53] An independent review of supply chain and material availability has also been carried out, and discusses how the company will mitigate any risks identified.[54] It also provides a phased delivery programme for the 2025-30 period, including evidence of the current inspection programme to enable the work to proceed.[55] Evidence of early-stage development (planning, design and land engagement) is also provided.[56] **Our assessment** - The company provides sufficient and convincing evidence to demonstrate that its proposed investment is deliverable in the timescales proposed. The company demonstrates: clear identification of key risks (e.g. planning, land, commissioning); appropriate mitigation strategies for any delivery risks; and alignment between programme scope and delivery capacity / materials availability. It also provides sufficient and convincing evidence to demonstrate that the delivery timescale of its largest [redacted] project is realistic, considering the risks of land purchase delays and includes appropriate protections for customers from any further delays.		

[53] Severn Trent Water, '05_SVE Asset health - Network storage', May 2026, p.45
[54] Severn Trent Water, '05_SVE Asset health - Network storage', May 2026, p.46
[55] Severn Trent Water, '05_SVE Asset health - Network storage', May 2026, p.47
[56] Severn Trent Water, '05_SVE Asset health Network storage Annex C – AMP8 programme', May 2026

4.1.3 Gravity sewers inspections

Assessment criteria	Assessment	Decision
Approach and Robust and Efficient Costs	**Decision summary** The company has provided sufficient and convincing evidence that its sampling approach is appropriate and that its costs are efficient. We propose to provide the full allowance for the request to survey 452km, as per the sampling request. **Additional request – 452km** Our assessment of the additional request to survey a further 452km is set out in the next section.	**Pass**
Customer Protection	**Decision – Adequate**. The company provides sufficient and convincing evidence that customers will be protected if the company under-delivers against the investment. **Company Evidence** - The company proposes a price control deliverable (PCD) for the investment funded by the requested additional allowance. The additional allowance will fund a programme of random and representative inspections covering 0.5% of the company's gravity sewer network, as well as an additional 452km. This PCD consists of three-sub elements to ensure delivery of the following activities, those are: mapped sewers (core random sample) and unmapped sewers (core randoms sample and additional random sample). The company also provided separate non-delivery PCD rates for: Core Mapped & Unmapped sewers and additional random sample of unmapped sewers. **Our assessment** - The company's proposed non-delivery PCD is in line with our expectations, as set out in the asset health guidance document, and aligns to the approach set out in the PR24 Final Determination. If the company under delivers, the funding will be returned to customers.	**Adequate**

4.1.4 Gravity sewers inspections beyond 0.5%

Assessment criteria	Assessment	Decision	
		Criteria	Adjustment (applied and/ or conditional)
Summary of request	Severn Trent Water requests £13.1 million to inspect 904km of gravity sewer. The proposed investment includes £5.1 million to deliver the core 0.5% random sampling (452km) as required by our guidance[57] and £8.0 million to undertake further CCTV surveys of 452km unmapped gravity sewers, beyond the representative 0.5% inspection programme. This deep dive assesses the £8.0 million proposal of additional CCTV surveys of the unmapped sewers.		
Driver for increased survey rate	**Decision – Pass.** The company provides sufficient and convincing evidence for the drivers behind the proposed investment, as required by Ofwat PR24 Cost Change Process – Gravity sewers investment assessment guidance. **Company evidence** -The company states that the additional 452km of CCTV survey will improve its understanding of unmapped sewers by gathering substantive insight into a significant proportion of assets where location, attributes and condition are currently uncertain[58]. The company explains that the additional inspections will help to address recommendations made by the Independent Water Commission (IWC) to establish a	**Pass**	

[57] Ofwat, 'Ofwat-gravity-sewers-assessment-guidance-final-1.pdf', February 2026, p.8
[58] Severn Trent Water, 'SVE Asset Health- Gravity Sewer Inspections', May 2026, p.2

Assessment criteria	Assessment	Decision	
		Criteria	Adjustment (applied and/ or conditional)
	nationally consistent, risk based and statistically representative view of sewer network condition[59]. **Our assessment** - The company provides sufficient and convincing evidence to demonstrate the driver behind additional surveys beyond the core 0.5% programme. The proposed investment is targeted at unmapped sewers, where the information gap is more significant than for mapped assets, and should improve the company's understanding of their sewer network and future deterioration modelling. The company therefore provides sufficient drivers for an increased survey rate, as required by the Ofwat PR24 Cost Change Process – Gravity sewers investment assessment guidance.		
Expected benefits and use of increased survey data	**Decision – Adequate.** The company provides sufficient and convincing evidence that the additional survey data will support asset management benefits and improve future investment evidence. **Company evidence** - In addition to the benefits of achieving an improved understanding of the unmapped sewer condition to support better deterioration modelling, improve prediction of structural and operational risks, and strengthen the evidence base for future investment proposals, the company explains that improved visibility of sewer health will help to reduce the likelihood of collapses, blockages,	**Adequate**	

[59] Severn Trent Water, 'SVE Asset Health- Gravity Sewer Inspections', May 2026, p.2

Assessment criteria	Assessment	Decision	
		Criteria	Adjustment (applied and/ or conditional)
	pollution incidents and service failures[60]. It also states that better asset information will support a shift from reactive interventions to planned maintenance, helping to reduce long-term whole-life costs[61]. **Our assessment** - The company provides sufficient and convincing evidence of the expected benefits and use of increased survey data. The additional surveys provide information needed to understand asset condition, improve inference on unmapped assets and support better future targeting of capital maintenance activity. This provides a reasonable benefit by strengthening the evidence base for future decisions and reducing uncertainty in asset health planning. The company therefore demonstrates the expected benefits of an increased survey rate, as required by our PR24 Cost Change Process – Gravity sewers investment assessment guidance.		
Clear scope of intended surveying e.g. critical sewers, expected poor condition sewers	**Decision** – **Minor concerns.** The company provides sufficient and convincing evidence that the scope of the additional survey activity is defined, with some minor concerns around why lateral sewers have been selected. **Company evidence** - The company proposes to survey an additional 452km of unmapped sewers, taking the total survey coverage to 904km when combined with the	**Pass with minor concerns**	

[60] Severn Trent Water, 'SVE Asset Health- Gravity Sewer Inspections', May 2026, pp. 3, 13
[61] Severn Trent Water, 'SVE Asset Health- Gravity Sewer Inspections', May 2026, p. 13

Assessment criteria	Assessment	Decision	
		Criteria	Adjustment (applied and/ or conditional)
	core representative survey programme[62]. The company explains that the survey is focusing on unmapped sewers and the additional surveys will support improved understanding of the location, attributes and condition of unmapped sewers across the network[63]. The company indicates these inspections will include lateral sewers[64]. **Our assessment** - The assets to be surveyed are unmapped sewers, and the additional survey length is specified as 452km. As the inspections relate to unmapped assets, the lack of clear location or sewer details does not undermine the case for survey activity. This similarly applies to other technical parameters of the sewers to be surveyed. However, the company indicates that it will survey smaller lateral sewers as part of this additional inspection, which also leads to a higher cost per metre. The company is not sufficiently clear why lateral sewers will be surveyed ahead of larger or more critical sewers, and therefore the company's case at final determination would benefit from additional evidence on this issue. In response to the draft determination, and for future cost change process submissions, we would expect the company to provide sufficient and convincing evidence to demonstrate the reason of prioritising lateral sewers ahead of large or critical sewers in its proposed investment.		

[62] Severn Trent Water, 'SVE Asset Health- Gravity Sewer Inspections', May 2026, p. 11
[63] Severn Trent Water, 'SVE Asset Health- Gravity Sewer Inspections', May 2026, p. 12
[64] Severn Trent Water, 'SVE Asset Health- Gravity Sewer Inspections', May 2026, p. 17

Assessment criteria	Assessment	Decision	
		Criteria	Adjustment (applied and/ or conditional)
Delivery risks	**Decision – Minor concerns.** The company has provided sufficient and convincing evidence that it has accounted for delivery risks, however there are minor concerns associated with the inspection timeline. **Company evidence** - The company provides a high-level delivery timeline in its submission, showing complete delivery by 2030[65]. The company presents delivery risks in its submission[66], noting the need to digitise survey outcomes, and that CCTV surveys do not provide certainty of condition[67]. It also acknowledges the delivery risk that the supply chain may be unable to deliver the additional volume of work[68]. The company states that it is working closely with its supply chain to mitigate this risk, and that it has in-house capabilities which can be redeployed if required[69]. **Our assessment** - The company provides sufficient and convincing evidence as required by our guidance that it has accounted for delivery risks. While the additional inspections represent a doubling of the minimum required inspections of 0.5% of all gravity sewers, the company acknowledges this and indicates it is taking steps to avoid	**Pass with minor concerns**	

[65] Severn Trent Water, 'SVE Asset Health- Gravity Sewer Inspections', May 2026, p. 21
[66] Severn Trent Water, 'SVE Asset Health- Gravity Sewer Inspections', May 2026, p. 23
[67] Severn Trent Water, 'SVE Asset Health- Gravity Sewer Inspections', May 2026, p. 23
[68] Severn Trent Water, 'SVE Asset Health- Gravity Sewer Inspections', May 2026, p. 23
[69] Severn Trent Water, 'SVE Asset Health- Gravity Sewer Inspections', May 2026, p. 23

Assessment criteria	Assessment	Decision	
		Criteria	Adjustment (applied and/ or conditional)
	bottlenecks with the supply chain. However, while the submission is not in line with our 'Enhancing asset health understanding roadmap – Gravity Sewers condition data request' which asks for the results of random surveys by 28th July 2028, we support the proposal as it will provide additional benefits beyond the 0.5% minimum inspection requirement[70].		

4.1.5 Gravity sewers rehabilitation

Assessment criteria	Assessment	Decision	
		Criteria	Adjustment (applied and/ or conditional)
Summary of request	Severn Trent Water is requesting **additional funding** of **£161.7 million**[71] across the 2025-30 period to deliver a step change in gravity sewer rehabilitation. This includes 172km of additional rehabilitation, increasing total delivery for the 2025-30 period to approximately 290km when combined with the company's base plan. The company also aims to increase		

[70] Ofwat, 'Enhancing asset health understanding roadmap – Gravity Sewers condition data request', June 2026, p. 8
[71] Due to minor differences in the numbers provided in query responses, data submission and case write up there are some slight discrepancies between the numbers included within the deep dive write up and the model. We will resolve this for the final determination.

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<tr><td></td><td>rehabilitation rates from 0.06% to 0.10% per annum as a “no regrets” step towards a sustainable long-term renewal rate. Severn Trent Water's gravity sewer proposal comprises:

• Workstream 1 (Find-and-Fix): £86.46 million for targeted rehabilitation of 102km CG4 and CG5 sewers supported by extensive CCTV survey and cleansing;
• Workstream 2 (Catchment-based): £49.27 million to rehabilitate of 70km high consequence sewers using a catchment-level approach;
• Outcome verification programme: £26.0 million to install 1,000 flow monitors to assess intervention effectiveness.</td><td></td><td></td></tr>
<tr><td>Need for a step change in investment</td><td>Out of scope adjustment - We exclude £130.78 million of costs that are out of scope for asset health.

Decision – Pass. The company provides sufficient and convincing evidence that £30.708[72] million of the proposed investment meets the 'Need for a step change in investment' criteria for additional asset health investment for its gravity sewer assets.

Company evidence:</td><td>Pass</td><td>£131 million excluded as out of scope. Remaining £30.708 million passed</td></tr>
</table>

[72] We acknowledge that in response to query x SVE confirmed that this figure should be £30.94 million. We will update this at FD.

Assessment criteria	Assessment	Decision	
		Criteria	Adjustment (applied and/ or conditional)
	Workstream 1: The company provides historical analysis to demonstrate that around 15% of assets are already in condition grade 4 and 5. Its deterioration model indicates that even though current performance is stable, there is an underlying long-term deterioration risk and the current rehabilitation rates are insufficient. The company suggests that higher sustainable investment is required to maintain sewer collapse performance. In its query response[73], the company clarifies that £55.49 million of the workstream 1 request is 'enabling surveying and cleansing', with the remaining £30.94 million for sewer rehab. **Workstream 2:** The company describes the workstream as complementary to workstream 1 which will "develop new ways of targeting deterioration early, before defects compound"[74]. In its query response, the company clarifies that "sewers targeted in Workstream 2 may not qualify for rehabilitation in Workstream 1, as they may not have reached a critical condition grade or because low-level defects are not readily apparent."[75] These locations relate to the areas the company has highlighted as high risk, e.g. potential impact to bathing waters, catchment at risk of DWF compliance and past hydraulic flooding. **Outcomes verification:** The company proposes an extensive monitoring programme at the locations identified in Workstreams 1 and 2 to quantify the impact of interventions and whole		

[73] Severn Trent Water, Query Response 'OFW-SVE-CCP014', June 2026
[74] Severn Trent Water, 'SVE Asset Health- Gravity Sewer Rehabilitation, May 2026, p. 34, section 2.5
[75] Severn Trent Water, Query Response 'OFW-SVE-CCP014', June 2026

Assessment criteria	Assessment	Decision	
		Criteria	Adjustment (applied and/ or conditional)
	life cost benefits through the monitoring of blockages and infiltration[76]. Severn Trent Water explains in its query response[77] that over 50% of the £26.014 million monitoring request is for operational activities such as data services, hosting data and £6 million of optimism bias. **Our assessment** – We exclude £130.78 million of costs which are out of scope for asset health. We accept the company's view of 'what base buys' (implicit allowance) across its asset proposals, which is clear and in line with a view of what base buys based on historical sector expenditure rates.[78] **Workstream 1:** In our 'gravity sewers investment assessment guidance', one of the core principles is that "proposed investment should focus on improving the overall long-term health of the gravity sewer network, focusing on capital maintenance investment, not operational or short-term solutions such as cleaning (jetting)." We note that a substantial proportion of expenditure relates to surveying and cleansing (£55.49 million), which the company presents as necessary to enable rehabilitation. However, the company does not provide sufficient and convincing evidence to demonstrate the scale of enabling activities (e.g. 8,650km CCTV survey) relative to the rehabilitation of 102km, nor clearly explain why this activity is not appropriately funded through base allowances, and so we exclude £55.49		

[76] Severn Trent Water, 'SVE Asset Health- Gravity Sewer Rehabilitation, May 2026, p. 35 Section 2.6
[77] Severn Trent Water, Query Response 'OFW-SVE-CCP014', June 2026
[78] Our assessment and further detail can be found in 'Cost Change Draft Determinations 2026 – Asset health cross cutting issues appendix'

Assessment criteria	Assessment	Decision	
		Criteria	Adjustment (applied and/ or conditional)
	million associated with enabling surveying and cleansing, leaving £30.94 million for assessment. **Workstream 2:** Our guidance also states that "... the company's investment proposal is required to demonstrate a clear link between the poor structural condition of the sewer(s) and the infiltration observed." We note that the catchment-based workstream relies on infiltration and consequence-based targeting, rather than clearly evidenced poor structural condition. While the company sets out a conceptual framework (risk = likelihood × consequence) in its query response[79], it does not provide sufficient asset-level evidence linking structural defects to the observed performance deterioration as required by our guidance[80]. The workstream therefore appears to be aimed at infiltration reduction for wider performance benefits, not related to asset health. Additionally, the company could not demonstrate "a clear link between the poor structural condition of the sewer(s) and the infiltration observed" as required in our gravity sewer assessment guidance. We therefore exclude £49.27m from the assessment. **Outcome verification scope:** We provide a list of items that are 'in and out of scope' in Appendix A2[81] in our guidance, and flow monitoring is considered as one of the out-of-scope		

[79] Severn Trent Water, Query Response 'OFW-SVE-CCP014', June 2026
[80] Ofwat, 'Ofwat-gravity-sewers-assessment-guidance-final-1.pdf', February 2026, p.15, section 2.3.2
[81] Ofwat, 'Ofwat-gravity-sewers-assessment-guidance-final-1.pdf', February 2026, p.27 Appendix A2

Assessment criteria	Assessment	Decision	
		Criteria	Adjustment (applied and/ or conditional)
	ancillaries of the cost change process. We note that in the company's query response, the monitoring programme includes a significant proportion of operational and data-related costs, including maintenance and data services, which are clearly not focusing on "capital maintenance interventions to improve the overall health of the asset."[82] We therefore exclude £26.0m from the assessment. On this basis, £130.78 million of the proposed scope is assessed as out of asset health investment scope and is removed. We acknowledge that the company highlights good asset management for gravity sewers and that the proposal is likely to provide service improvements. However, at PR24 we have made base expenditure allowances for this purpose. The cost change process has a specific focus on addressing emerging asset health issues whilst balancing customer affordability. The remaining scope relates to proactive rehabilitation activity within Workstream 1 (£30.97 million), where the company has provided sufficient and convincing evidence to demonstrate the need for additional asset health investment due to structural deterioration based on historical analysis. In response to the draft determination, and for future cost change process submissions, we expect the company to align its gravity sewer rehabilitation proposals with our guidance[83] and provide sufficient and convincing evidence to clearly demonstrate the rationale of the		

[82] Ofwat, 'Asset-Health-Assessment-Guidance.pdf', December 2025, p. 23, Section 4.1
[83] Ofwat, 'Ofwat-gravity-sewers-assessment-guidance-final-1.pdf', February 2026

Assessment criteria	Assessment	Decision	
		Criteria	Adjustment (applied and/ or conditional)
	proposed scope of works. We will consider updating our assessment at final determination based on the company's response.		
Best option for customers	**Decision summary – Pass.** The company provides sufficient and convincing evidence that the £30.94 million of the proposed investment passed in the need assessment meets requirements for 'Best option for customers' for additional asset health investment. **Company evidence** - In its submission, Seven Trent Water provides a structured optioneering framework[84]. The company uses a multi-step optioneering approach to target and screen intervention options and applies cost-benefit analysis to assess six shortlisted-option sets with benefit-cost ratios calculated. Then two preferred interventions (find-and-fix and catchment-based rehabilitation) have been selected based on highest BCRs to become the preferred option. The preferred option includes consideration of long-term performance outcomes, particularly maintaining collapse performance and reducing service risk, and has been described in quantifiable deliverables.	**Pass**	

[84] Severn Trent Water, 'SVE Asset Health- Gravity Sewer Rehabilitation, May 2026, p. 27, section 2

Assessment criteria	Assessment	Decision	
		Criteria	Adjustment (applied and/ or conditional)
	Our assessment - The company provides sufficient and convincing evidence that it has considered a range of options and identified a preferred approach that is broadly aligned with customer and environment needs. Additionally, the preferred option is identified through a structured optioneering process, including use of cost-benefit analysis and consideration of multiple solutions to meet the expectations set out in our guidance[85]. We note that the company does not provide a longlist of unconstrained options and the proposal has limited transparency when comparing options at a detailed, consistent level. In addition, the uncertainty around how enabling and monitoring components influence option comparisons is unclear. However, these concerns do not have a material impact on identifying the best options for customers. For future cost change process submissions, we would expect the company to improve the clarity of the process of shortlisting from the unconstrained options and provide greater detail on individual options so these can be compared at a consistent level.		
Robust and efficient costs	**Decision** – **Pass**. The company provides sufficient and convincing evidence that the proposed costs are robust and efficient. The submission is supported by contractual pricing, historic	**Pass**	**0%**

[85] Ofwat, 'Asset-Health-Assessment-Guidance.pdf', December 2025, p. 15, Section 3.4.2

Assessment criteria	Assessment	Decision	
		Criteria	Adjustment (applied and/ or conditional)
	delivery data, independent benchmarking and a clear linkage between engineering scope and cost estimates. **Company evidence** - The submission applies a costing methodology using a combination of agreed contract rates, historical unit costs from the company's internal cost database and bottom-up estimates. Estimated costs include direct costs, indirect costs, on-costs and corporate overheads. The submission provides a breakdown of programme costs by cost category, including direct costs, overheads and other allowances, together with activity-level descriptions of the proposed interventions. The submission includes benchmarking using both internal and external sources, including benchmarking of price curves and independent review by a third-party. Benchmarking results are presented at programme level. The submission also explains that the business case has been developed at programme level and that specific sewers requiring rehabilitation have not yet been identified. As a result, costs are presented as a range, with unit rates varying from approximately £788 per metre to £939 per metre depending on the characteristics of the interventions ultimately selected. **Our assessment**- The submission provides sufficient and convincing evidence that the costing methodology is robust. Direct costs are split across a combination of agreed framework rates, internal data from historical projects and non-standard bottom-up		

Assessment criteria	Assessment	Decision	
		Criteria	Adjustment (applied and/ or conditional)
	estimates. Direct costs for workstream 1 are 100% based on framework rates, for workstream 2, 30% framework rates, 50% internal historic project data, and 20% non-standard bottom-up estimates. 100% of the outcome verification cost estimate has been derived from bottom-up cost estimates from two supplier quotes. This demonstrates that costs are informed by a combination of current market pricing, historical delivery experience and engineering-based estimating, consistent with Ofwat's expectation that cost estimates should be informed by relevant delivery evidence and supported by a transparent methodology. The proposed unit cost is relatively high compared with some other submissions. The submission proposes rehabilitating 172km for £161.71 million, a unit rate of £940 per metre. This is 56% higher than the median of £604 per metre.[86] However, the £30.94 million which we consider in scope, to deliver 102km, leads to a unit rate of £303 per metre, below the median. Additionally, the submission provides sufficient and convincing evidence that costs are efficient. Benchmarking has been undertaken using both internal and external comparator sources and independently reviewed by a third-party. Benchmarking results indicate that costs are below comparator levels across both workstreams, with workstream 1 reported to be approximately 6% below benchmark levels and workstream 2 approximately 3% below benchmark levels. This demonstrates that the proposed costs are consistent with efficient delivery assumptions.		

[86] 'Cost Change Draft Determinations 2026 – Asset health cross cutting issues appendix'

Assessment criteria	Assessment	Decision	
		Criteria	Adjustment (applied and/ or conditional)
	The submission provides visibility of the principal cost drivers through the breakdown of direct costs, indirect costs and overheads. Unit rates are linked to intervention type, catchment characteristics and delivery scope, demonstrating a clear relationship between the engineering requirements and the resulting costs. While benchmarking evidence is presented primarily at programme level and the specific assets to be rehabilitated have not yet been identified, this is consistent with the programme-level nature of the investment proposal. The use of cost ranges reflects the uncertainty associated with identifying individual interventions at this stage and is supported by the underlying costing methodology. The submission therefore provides sufficient and convincing evidence that costs are robust and efficient, and no cost challenge is applied at draft determination.		
Customer protection	**Decision – Adequate.** The company provides a reasonable framework to protect customers in the event of under-delivery of the proposed investment. **Company evidence** - The company proposes Price Control Deliverables (PCDs) covering both the investment to be delivered through existing PR24 base expenditure allowances and the investment delivered through the requested additional allowance. Investment delivered through base allowances is defined by expenditure, while investment delivered through additional allowances is defined by km of sewers rehabilitated. The company proposes two interventions: planned business maintenance, delivered through the base allowance; and	**Adequate**	**N/A**

Assessment criteria	Assessment	Decision	
		Criteria	Adjustment (applied and/ or conditional)
	gravity sewers rehabilitation, delivered through the additional allowance, for which it applies a PCD unit rate. **Our Assessment** - The company's proposed base PCD is in line with our expectations set out in the Asset Health assessment guidance. The company's proposed non-delivery PCD tied to the requested additional investment is also reasonable and provides appropriate protection for customers against under-delivery. We consider that for asset health submissions, a PCD linked to specified named schemes is generally appropriate. For gravity sewer rehabilitation, because there are not necessarily distinct schemes at this stage, we instead propose to link the PCD to intervention type, pipe diameter and location classification. The proposed structure is set out in Cost Change Draft Determinations 2026 – Price control deliverables appendix.		
Investment delivery plan	**Decision summary - Adequate.** The company provides sufficient and convincing evidence to demonstrate that the programme is deliverable. **Company evidence**- The company provides its 2025-30 investment delivery report supported by PCD status[87] to demonstrate its 2025-30 programme is on track. The company also	**Adequate**	**N/A**

[87] Severn Trent Water, '2026 cost change process – Technical Overview', May 2026, p. 37, section 9

Assessment criteria	Assessment	Decision	
		Criteria	Adjustment (applied and/ or conditional)
	provides a detailed delivery profile and risk information for its gravity sewer rehabilitation programme[88], demonstrating that risks are considered throughout the planning and delivery phases. It also provides a phased delivery programme for the 2025-30 period supported by output measures and PCDs. Evidence of early-stage development, including traffic management, land ownership permission and supply chain engagement, is also provided.[89] **Our assessment** - The company provides sufficient and convincing evidence that its proposed investment is deliverable in the timescales proposed. The company demonstrates: clear identification of key risks across different phases; appropriate mitigation strategies for any delivery risks; and alignment between programme scope and delivery capacity / materials availability. It also provides sufficient and convincing evidence that the delivery timescale of its gravity sewer rehabilitation is realistic, considering the risks of design and delivery, and includes appropriate protections for customers from any further delays.		

[88] Severn Trent Water, 'SVE Asset Health- Gravity Sewer Rehabilitation, May 2026 p. 47, section 5.1
[89] Severn Trent Water, 'SVE Asset Health- Gravity Sewer Rehabilitation, May 2026, p. 47, section 5.2 and 5.3

A4.2 Growth

4.2.1 Growth at sewage treatment works

Assessment criteria	Assessment	Decision	
		Criteria	Adjustment (applied and/ or conditional)
Summary of request	Severn Trent is requesting **£59.37 million** of additional end-of-period funding for eight Growth at Sewage Treatment Works schemes in the 2025-30 period. This is in addition to its existing £701 million growth allowance for sewage treatment works in the 2025-30. The company states that it would spend its request in the 2025-30 period, with eight **schemes planned by 2030.**[90]		
Need for a step change in investment	**Decision summary - Partial Pass.** The investment meets the criteria for additional growth at sewage treatment works enhancement investment and additional customer funding. Some of the proposed sites require action to address historical dry weather flow (DWF) permit exceedances which is not within the scope of the growth driver. We have reviewed the company's proposed DWF adjustment and apply a **£35.22 million** adjustment in relation to DWF exceedances following our amended PR24 methodology for the cost change process, based on the **company's total programme value of £100.79 million.** **Company evidence** - Severn Trent states that the additional investment is required to accommodate growth occurring faster and at a greater scale than assumed when it prepared its PR24 business plan. The company identifies eight sewage treatment works where updated growth assessments show higher forecast demand than reflected in its	**Partial pass**	

[90] Severn Trent, 'Cost change process tables February 2026', May 2026

Assessment criteria	Assessment	Decision	
		Criteria	Adjustment (applied and/ or conditional)
	DWMP and PR24 assumptions. It provides site-level evidence comparing Drainage and Wastewater Management Plan (DWMP) growth forecasts for 2025-35 with updated assessments based on local planning authority documents, neighbourhood plans, planning portals, recent planning decisions and observed development activity. The company states that the proposed investment is needed to increase sewage treatment capacity while maintaining compliance with environmental permits. It provides site-level information on forecast increases in DWF, design population equivalent and future permitted DWF requirements. It also states that it has engaged the Environment Agency through the pre-application process for all eight sites to confirm the permit limit changes required for the planned increase in permitted DWF. The company explains that the eight schemes were not included in its PR24 growth programme because the growth pressures were not sufficiently material or certain at the time, or because the sites did not meet the PR24 eligibility criteria. Severn Trent clarifies that its funding request **(£59.37 million[91])** excludes the costs associated with restoring compliance with existing DWF permits. In response to our query, the company provided additional evidence that the total cost to deliver the proposed programme is **£100.79 million**. **Our assessment** - The company provides sufficient and convincing evidence that additional investment is needed to facilitate higher than expected demand growth at the eight sewage		

[91] Severn Trent is requesting £59.37 million under the cost change process 2026 for growth at sewage treatment works, of a total program estimated cost of £100.79 million to deliver the total relevant upgrades required for the proposed 8 Sewage treatment works.

Assessment criteria	Assessment	Decision	
		Criteria	Adjustment (applied and/ or conditional)
	treatment works included in its request, and that the proposed schemes are additional to those funded at PR24 final determination under the growth at sewage treatment works allowance. The company has drawn on relevant and updated evidence, including Local Planning Authority information, planning activity, wider development trends and future permit requirements agreed with the Environment Agency, which supports the case that household and non-household growth is materially higher, and in some cases faster, than assumed in its PR24 business plan and DWMP 2023 forecasts. On balance, we consider that the investment meets the criteria for additional growth at sewage treatment works enhancement investment and customer funding, as the evidence supports the company's position that the schemes are required to accommodate growth beyond the level funded at PR24 and that the requested expenditure is incremental to its existing growth allowance in the 2025-30 period. Severn Trent recognised that some proposed sites require action to address historical DWF permit exceedances, and that this is outside the scope of the growth driver and should not be funded through this cost change process. The company initially submitted a reduced programme value to reflect its proposed adjustment for historical DWF exceedances to avoid overlap with previous base allowances. We requested the total programme cost, excluding the company's own DWF adjustment, to assess the request consistently with other companies. Applying our DWF adjustment to the allowances post efficiency challenge results in a £35.22 million adjustment against the total programme value of £100.79 million. This ensures that the allowance reflects only the additional investment need driven by growth		

Assessment criteria	Assessment	Decision	
		Criteria	Adjustment (applied and/ or conditional)
	and avoids customers funding expenditure associated with restoring compliance with existing dry weather flow permits.		

Best option for customers	**Some concerns** - The company provides some evidence that it has applied the best option for customers. However, the company does not provide sufficient and convincing evidence that infiltration considerations have been assessed and managed, particularly for sites that are inefficient against the modelled benchmark. As a result, we apply a 10% challenge for all eight proposed schemes. **Company evidence** - The company describes its optioneering methodology for the eight sewage treatment works, including how it set design horizons for smaller and larger sites, and states that it considered options such as doing nothing, maximising existing assets, catchment transfers, works expansion, new treatment processes and replacement. It provides evidence of stakeholder engagement, including with the Environment Agency through the pre-application process, which it says informed future permit requirements, treatment design and reduced regulatory uncertainty. The company links the schemes to its wider growth strategy, DWMP, 2025-30 period planning and supporting technical work, and states that the preferred options reflect capacity needs, future permit limits, deliverability, compliance risk and whole-life cost considerations. It also provides a worked example for Warton STW and a site-by-site options summary in Annex C92, with rejected options generally explained by cost, affordability, land constraints, deliverability risk or unacceptable compliance risk. **Our assessment** - We have assessed the company's evidence on how it selected its preferred options through its optioneering process. We acknowledge that the company considered a range of options, including doing nothing, optimising existing assets, catchment transfer and alternative delivery approaches, and that it has provided some evidence that the preferred options respond to forecast growth and associated permit pressures at the eight sites. In particular, the company explains how deliverability and compliance risks informed the selected options, and how the proposed interventions are intended to support longer-term value for customers. However, the evidence is less clear on whether the preferred	**Some concerns**	**10%**

Assessment criteria	Assessment	Decision	
		Criteria	Adjustment (applied and/ or conditional)
	options represent the best option for customers in all cases, as the company provides limited comparative evidence on the relative costs, benefits and trade-offs of shortlisted or rejected options, and has not sufficiently demonstrated how infiltration considerations have been assessed and managed, particularly for sites that are inefficient against the modelled benchmark. As a result we propose to apply a 10% efficiency challenge. To achieve a pass at final determination, the company must provide sufficient and convincing evidence that the proposed investment is the best option for customers based on: • Comparative optioneering evidence and how effectively infiltration management has been considered as part of the preferred solutions.		
Robust and efficient costs	**Decision summary – Pass.** The company provides sufficient and convincing evidence that the requested costs for the eight proposed site interventions are efficient. We do not propose to apply any further cost challenge beyond the DWF adjustment and the efficiency challenge applied through our deep-dive assessment of optioneering. **Company evidence** - The company has benchmarked its requested costs against Ofwat's PR24 growth at sewage treatment works model. It states that, on an unadjusted basis, the programme appears 36% above the PR24 modelled benchmark, with an efficiency score of 1.36. The company seeks to explain this variance as resulting from limitations in the PR24	**Pass**	**0%**

[92] Severn Trent, 'Planning for Growth', May 2026, Annex C

Assessment criteria	Assessment	Decision	
		Criteria	Adjustment (applied and/ or conditional)
	model, site-specific cost pressures, and regional and macroeconomic construction cost pressures that are not reflected in the benchmark. The company states that all eight schemes are more mature than equivalent PR24 forecasts, with formal supply chain price submissions received for each site and contract values negotiated for most schemes. Contract costs account for more than 85% of proposed costs, and the company has not applied optimism bias because of the maturity of the schemes. The company further adjusts the PR24 benchmark to reflect cost pressures observed across 23 analogous PR24 STW growth schemes. **Our assessment:** We have assessed the company's proposed costs against the PR24 Growth at Sewage Treatment Works modelled costs. While the costs appear inefficient against the benchmark, the company provides evidence that its costs are relatively mature, with more than 85%[93] based on negotiated contract prices, and provides sufficient and convincing evidence for these variances, including site-specific cost pressures, limitations in the PR24 model and wider market pressures. On balance, we consider that the company provides sufficient and convincing evidence that the requested expenditure is efficient. We therefore do not propose to apply any further adjustment in addition to our DWF adjustment and best option challenge.		

[93] Severn Trent, 'Planning for Growth', May 2026, 2.1 Methodology to determine costs, p.18

Assessment criteria	Assessment	Decision	
		Criteria	Adjustment (applied and/ or conditional)
Customer protection	**Decision summary - Pass.** The company provides sufficient and convincing evidence that customers would be protected through an updated price control deliverable (PCD) for growth at sewage treatment works. **Company evidence** - Severn Trent proposes that the additional eight schemes are added to the existing 2025-30 period PCD for sewage treatment works growth, PCDWW27, with the associated funding increased to reflect the additional allowance. The company states that the existing PCD is appropriately designed to hold it accountable for delivery and sets out site-level deliverables. **Our assessment** - We consider that the proposal contains appropriate mechanisms to protect customers from non-delivery. Applying our updated CCP (cost change process) growth at sewage treatment works PCD to the additional schemes provides a clear mechanism to hold the company to account for delivery and to return funding to customers where outputs are not delivered. Further detail on the proposed PCD can be found in Cost Change Draft Determinations 2026 - Price control deliverables appendix.	**Adequate**	
Investment delivery plan	**Decision summary - Pass**. The company provides sufficient and convincing evidence that the in-scope programme is deliverable. **Company evidence:** Severn Trent provides a delivery plan for the eight schemes covering the 2025-30 period, supported by evidence that the programme is relatively mature. Feasibility and outline design are complete for all schemes, detailed design is advanced for many, and the delivery programme is aligned to PR24 STW growth PCD milestones. The	**Adequate**	

Assessment criteria	Assessment	Decision	
		Criteria	Adjustment (applied and/ or conditional)
	company states that all schemes are planned to operate to the new permit by 31 December 2026, except Toddington East, which is planned for 2027. It also provides evidence of supply chain engagement, contractor mobilisation, Environment Agency pre-application engagement, and scheme-level delivery risks recorded in its risk management system. **Our assessment** - The delivery plan is credible. The proposed phasing is consistent with delivery within the 2025-30 period, and the company has provided evidence that the schemes are sufficiently developed to support delivery confidence. We note that technical assurance has been completed with no major concerns raised, and that the company has provided scheme-level risk registers, including residual risk scores, to demonstrate how delivery risks are being identified. We therefore apply a **pass** for the investment delivery plan.		

Ofwat (The Water Services Regulation Authority) is a non-ministerial government department. We regulate the water sector in England and Wales.

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