Anglian Water: PR24 Cost Change Proposal

1 May 2026

Cost Change 2026 proposal

Foreword

Cost Change 2026 proposal

1 Foreword from our CEO, Mark Thurston,

The next five years will see Anglian Water deliver our biggest ever investment programme. At £11 billion, it is almost double that of the previous five-year period and represents the first step in a multi AMP investment plan.

At the time we submitted our Business Plan in 2023, the PR24 process and Final Determination could not capture all the dynamic challenges that our sector and our region face. Since then, a new Government has taken office with vastly greater growth ambitions, while the Independent Water Commission and Water White Paper have signposted a fundamentally new model of regulation that better reflects regional realities and delivers a step change in asset health. The growth funded in our AMP8 plan no longer reflects the full scale of the pressures we are facing, nor the level of upgrades and expansion required to serve a growing economy.

These challenges are not unique to Anglian Water, but the East of England sits at the forefront of many of them. We operate in the UK's driest and fastest growing region, facing water scarcity, flood risk and significant environmental pressures. As a result, we are progressing some of the country's most significant infrastructure projects, including two new reservoirs, hundreds of miles of modernised pipe networks, enhanced water recycling infrastructure, and nature based solutions such as wetlands. This includes our Strategic Interconnecting Pipeline, the largest chalk stream protection and resilience scheme ever undertaken in the UK, first set in motion over a decade ago. We also face the challenge of deteriorating health of many of our critical assets, the consequence of long-term underinvestment in the sector.

Delivering our plans will take more than engineering excellence. To enable all of this to happen, the water sector needs investment. As an industry, we must offer stability and clarity to attract the capital required for this transformation, and we must be able to offer investors a fair and attractive return over a reasonable timeframe.

In order to support additional investment, our customers and regulators will rightly expect evidence our existing investment proposals are on track. With the support of our supply chain partners, in the first year of AMP8, Anglian will fully meet the material increase in expenditure expected. Our delivery update, submitted separately to Ofwat, demonstrates that our largest ever programme of work is on track. We recognise the consequences on bills and household budgets; however we consider the investments proposed essential to mitigate key risks to service, transition to a more appropriate level of maintenance and enable the growth in our region to be delivered.

The cost change process presents an important opportunity for the sector to work together to find alignment and reach solutions that quickly and successfully balance the needs of the environment, growth and asset health, whilst remaining transparently accountable to customers and regulators. We recognise the need to be held to account for delivery and to build trust. Since joining Anglian in 2024, I have focused on sharpening our capacity to deliver our ambitious programme.

We are working with regulators to find a way through and I would like to thank them for their collaboration. This document sets out our additional investment needs, on top of our business plan to support what we need in the next 5 years - and beyond - to deliver for the region we serve.

2 Message from our Chair, Dr Ros Rivaz

We welcome the principle of Ofwat's cost change process. This process recognises the need for additional investment during the period to 2030 beyond those reflected in recent business plan determinations.

The dynamic nature of the ambitions for our region and associated investment demands mean the demands for the AMP8 period exceed our previous PR24 Business Plan.

These are in areas critical to delivering for customers and the environment. They will also ensure that we are playing our role in supporting the delivery of government's ambitions on growth and improvements to asset health for which we have long advocated that additional investment is necessary to ensure asset resilience now and in the future. The need for additional investment in the long-term health of our assets has been a priority focus for many years, with Anglian Water playing a central role in driving reforms in this area, a position now recognised in the Indepenent Water Commission's report and latterly Government's Water White Paper.

As a Board, we have scrutinised the proposals and are confident our additional investments are efficient and deliverable.

It is, however, essential that the proposals are investable.

To that end, it is imperative that Ofwat allows the necessary revenues to be recovered as the investments are made during AMP8. This ensures the equivalent treatment of this investment with the rest of the PR24 investment and is a necessary treatment to ensure investability now and in the longer term. Critically, this also protects customers from unnecessary bill spikes in 2030 by smoothing the impact on bills.

Delivering housing and economic growth

Our region has rapid growth and is home to four of the UK's fastest growing towns and cities.

80,000 more homes planned for our region by 2030 compared to our PR24 business plan.

Regional population projected to increase by over 500,000 people by 2040.

£124m for 5 WRC schemes

£75m

Flag Fen (Peterborough) larger scheme adding just over **45,000 PE.** Trebling the scale of the current PR24 scheme.

£49m

Four other 'shovel ready' schemes are Foxton (Leics), Great Dunmow, Langham (Essex), Washingborough – combined additional process capacity of over 15,000 PE combined.

Combined schemes provide around 1/5th additional capacity on top of AMP8 programme.

All this helps to unlock new housing developments.

Helping maintain vital services to customers: our asset health proposals

Increasing investment in existing assets is part of our long term strategy

Evidence-led, targeted at the highest risks and sequenced to ensure that customers pay first for investment that is most urgent and delivers the greatest benefit.

Shift towards a more long run, sustainable renewal position.

Storage points £176m

Ensuring safe, reliable drinking water through storage investment.

Accelerated condition inspection programme and a range of remedial works across the majority of our **377 treated water storage sites** (amounting to around **800 water tanks**, **compartments and cells**)

Each year, by reducing this risk, investment helps to avoid:

- Supply interruptions affecting properties, potentially for multiple days, and
- Low pressure events affecting many thousands of properties per year.

Gravity sewers £31m

Beginning the transition to sustainable sewer renewal ahead of PR29 refurbishment of **~9km** of our highest risk gravity sewers reducing the risk of:

- Pollution events
- Internal sewer flooding events
- External sewer flooding events
- Road closures

£11m proactive CCTV sewer condition surveying our high-risk sewer.

Power supplies £15m

Replace 50 of the highest risk High Voltage power supplies (transformers and associated switchgear assets) offering substantial risk reduction to customers:

- Avoid supply interruptions across many properties due to failures at major Water Treatment Works
- Becoming a failing works and avoid associated serious pollution events.

3 Executive Summary

3.1 Overview

The intensity, timing and wider context of the investment needs of our business have shifted materially since the creation of our PR24 proposals. The Independent Water Commission (IWC) and the Water White Paper emphasised the urgent need to better address the deterioration in asset health; government priorities for housing and economic growth have clarified where growth in our region is most certain; and emerging risks–including cyber security and PFAS–are becoming clearer.

The overall scale of investment required, and the pace at which it must now be delivered AMP-on-AMP, represents a significant step change from the past. The emphasis on a step change in investment, prioritising a focus on existing assets supports our work with other in the sector to ensure as part of the reform programme we made a fundamental shift to recognise the necessary investment necessary to ensure existing assets can remain able to deliver services to future customers and the environment. Our 2026 cost change proposal represents the first phase of this wider need, targeting those areas where urgent action is essential. It focusses on what matters most to our customers, communities and the environment, while staying true to our long-term direction.

The cost change process provides an important corrective mechanism to PR24 in support of the vision for the sector set out by the IWC and Water White Paper, and to help establish a smooth transition toward PR29. The changed expectations of companies and regulators are clear, and this process provides an opportunity to signal how we are working differently and in step to deliver better outcomes for customers and the environment.

Our £11 billion AMP8 investment plan is now one year into delivery. Through robust Board oversight, close collaboration with delivery partners, and disciplined day-to-day operations, we have sharpened our focus on delivery to meet the demands of a programme of this scale, whilst remaining efficient. Put simply, we are delivering the material increase in expenditure and outputs that underpinned the first year of AMP8. As evidenced to Ofwat and wider stakeholders, our delivery is progressing as planned, and we are confident in our capability, capacity, and governance arrangements to deliver our AMP8 proposals. This creates the evidence base to be confident that we can also deliver the further proposals proposed here.

We have applied a structured and systematic approach to identifying and proposing additional investment, targeting areas most aligned to customer and government priorities whilst assessing wider benefits, deliverability and affordability and maintaining the flexibility to adapt to further priorities that may emerge. This aligns with the necessary transition in PR29 towards a more sustainable level of capital maintenance and asset renewal expenditure in AMP9 and beyond.

In assessing our proposals, we have engaged customers and focussed on the highest and most urgent priorities for our region: areas where investment is essential to protect customers and ensure timely delivery of resilience and environmental benefits.

These investments represent the first step in addressing the need for a step change in investment in the resilience of our underlying asset base. This aligns with the wider view of regulators and the ongoing sector work on improving asset health on which we, with others, have been central in driving forward. In this proposal we focus on critical assets including storage points, gravity sewers and high-voltage power supplies.

Beyond our focus on Asset health, we propose a clear and necessary investment in support of the focus in the region of unlocking growth pressures quickly, reflective of the fact that growth pressures we are experiencing now are in excess of those reflected in the previous expectations to 2030 reflected in the PR24 settlement. Our proposed additional WRC capacity builds on our ongoing remediation and compliance programme developed in response to the Flow Undertakings given in September 2025.

This additional investment supports the delivery of growth in our region beyond that reflected in our PR24 settlement and supports the necessary additional investment to ensure additional growth is supported whilst

ensuring no harm to the environment. By increasing capacity where growth is most certain, we are supporting our wider commitment to restore compliance and to avoid the creation of new environmental risks.

Specifically, we propose to deliver additional capacity at Flag Fen (Peterborough), a priority government site where growth forecasts are both more certain and significantly higher than forecast at Final Determination. We also propose unlocking further local housing at four smaller 'shovel ready' sites reflecting immediate growth expectations beyond those included within the Final PR24 determinations.

In determining the scale and scope of the additional proposed investments as part of this 2026 proposal, we have assessed the potential for further demands for increased investment. To that end, we are proposing only the most certain, most impactful for customers and the environment now.

We expect further clarify on further investment drivers and obligations to crystalise in future and we have identified a substantial pipeline of additional investment which we may propose in future cost change submission windows. Most notably additional investment demands driven to the government priority growth sites in our region and the clarity of revised regulatory obligations by the DWI relating to revised PFAS standards.

These drivers, whilst they remain uncertain will be defined shortly, such that we expect to bring forward through future cost change proposals where necessary.This ensures a phased, affordable and deliverable approach to the whole AMP informed by when necessary costs are more certain.These include strategic regional requirements, investment areas where scope or cost estimates require further development as well as new legal obligations, with phased delivery into AMP9. In later windows, we anticipate further proposals where the level of certainty is currently lower and where prioritisation will need to be balanced against other emerging needs. We will develop these areas adaptively as priorities evolve.

This document sets out our approach to developing our cost change proposal, the case for our proposed investments, how we assured cost robustness and efficiency, the anticipated scale of investment and impact on customer bills, how customer interests will be protected, the role of our Board in decision-making, our confidence in delivery, the regulatory approaches needed to attract the investment and deliver the benefits our proposal offers and the independent assurance undertaken on our proposals.

3.2 The longer term outlook and a focus on reform

The cost change process recognises the need for investment to deliver the outcomes customers and the environment expect beyond that captured in the previous AMP8 settlements. Ofwat's efforts to recognise the need to further additional investment are welcome.

The cost change process comes at pivotal point in process of reform - after CMA redeterminations and the Water White Paper that shows how government will take forward the IWC recommendations but ahead of transition and the next Price Review methodology. It is an important moment to signal to customers, investors and government that Ofwat has embraced the spirit of change and is ready to put the sector on a new footing in preparation for the broader reforms ahead.

A sustained long term need for additional investment

One of the most critical of these is to restore investor confidence in the sector. Delivering the long term goals and government priorities will require unprecedented levels of investment. PR24 sees a step change in overall totex from £6.5bn at PR19 to £11.2bn at PR24. This step change in the scale and complexity of enhancement capital programmes, which will deliver significant benefits to customers and their environment and to resilience, inevitably changes the risk profile inherent in delivering this portfolio of investments.

Over the next 25 years, companies expect to invest £275bn-£300bn delivering network improvements. This is on top of the investment needed from companies to deliver a step change in capital maintenance. Companies need to raise significant sums of new equity capital from investors to finance this investment. For this capital to be forthcoming, the regulatory framework needs to give investors confidence that they can earn a competitive rate of return with balanced levels of risk exposure. A lack of investor confidence in the regime will lead to either i) higher bills as a result of higher financing costs; or ii) forgone investment if companies are unable to access capital on reasonable terms. Restoring

investor confidence is therefore fundamental to delivering the public interest and the cost change process is an early indicator of how regulators will approach this challenge.

The need for investment has also changed since the PR24 Final Determination. There is now consensus around the need for a sharper focus on asset health and maintenance. The impact of chronic maintenance underfunding is already visible and worsening. The IWC and the Water White Paper found that the sector's approach to asset health needs fundamental change to reverse the long-term decline, achieve an appropriate sustainable level of renewal and centre infrastructure resilience as a strategic imperative. It recommended that the regulator's oversight of infrastructure resilience and asset health should be strengthened, under its supervisory approach. Since PR24, Ofwat has introduced the Asset Health Roadmap, providing a clearer and more transparent route for companies to address the most urgent and material asset health risks. Alongside new resilience standards and metrics, and improved mapping and asset intelligence, the sector needs more consistent, long-term investment to address deterioration and resilience gaps in critical assets.

This issue is not limited to the water sector. In December 2025 the All Party Parliamentary Group on Infrastructure released the report 'Reviving our Ageing Infrastructure 'Reviving ageing infrastructure report which provided a set of recommendations for how to implement the UK government's 10 Year Infrastructure Strategy, which notes "Infrastructure design should be guided by a hierarchy. First, maintain and optimise existing assets." We see this in action in other regulated sectors such as transport, with the latest plans for Road Investment Strategy 3 (RIS3) described as "a deliberate transition from an emphasis on large-scale enhancement projects to an increased focus on major renewals and maintenance", where the proportion of enhancement capex has gone from over half in RIS2 to around 15% in RIS3[1]

Growth is now materially higher than assumed at PR24: updated national, regional and local growth forecasts show that there will be significantly higher demand on our networks. The national push on growth and housing is translating directly into additional demands for water and wastewater treatment: an increase in population equivalent (PE) of about on fifth more than what was in our PR24 Plan. The scale of growth represents a major opportunity for the region: unlocking housing; supporting innovation clusters; and enabling the Government's plan for economic renewal.

The IWC and Water White Paper announced a move to supervisory regulation, including the appointment of a Chief Engineer to enable engineering-based supervision and greater understanding of the true costs of projects. This approach offers a way to reset the engagement and relationship between companies and the economic regulator, supporting a move away from econometric modelling & a 'one size fits all' approach, and setting appropriate cost allowances and performance targets, that take into account regionally specific factors.

The previous LTDS highlights increasing long term pressures–ageing assets, climate impacts and rising environmental expectations–which require a sustained and planned renewal profile. Our asset health proposals begin this shift, reflecting the direction set by the Independent Water Commission and Ofwat's asset health roadmap. They prioritise evidence led, risk-based interventions in the areas of greatest consequence.

Our proposals align fully with our Long Term Delivery Strategy (LTDS), ensuring that near-term investment supports the region's future growth and resilience. By focusing on urgent, low regret needs, we avoid short term, low value interventions and ensure capacity is built where it will genuinely be required. And by bringing investment forward now, we help smooth bill increases over the long term.

3.3 The need to ensure the investability of these proposals is essential to securing the necessary investment

Ofwat has a vital role in ensuring the sector remains attractive to the investment generally and the additional investment we propose.

Based on data gathered by Water UK, the sector will request around £5 billion of new investment in the 2026 submission window. Some companies have publicly signalled an intent to submit further substantial proposals in future windows. However, the successful implementation and delivery

1 Roads funding plan priorities maintenance above new capacity .

of the investments underpinned by this cost change proposal - and any potential future proposals submitted in 2027 and 2028 - are subject to raising the necessary finance to fund it.

The regulatory framework and decisions taken within it, play a central role in ensuring the sector is able to attract the scale of investment required to deliver the improved services to customers and deliver against government and societal expectations.

The IWC recognised the need for ensuring investability in the sector. Ahead of the necessary legislation and full transition to the new regulatory system, the cost change process is the opportunity to initiate this transition and convey a positive signal towards reform.

There are several outstanding policy decisions which are necessary to ensure the cost change process is investable and supports a phased programme which transitions towards a more sustainable rate of investment at PR29. Early regulatory clarity on these points will signal that the sector is progressing toward the reset envisaged by the IWC and should support the 'green shoots' of investor confidence returning after the Water White Paper.

3.3.1 In-period revenue adjustments are required to support investability

Allowing revenue to be recovered in-period is essential to supporting the affordability of additional investment and investor confidence. Customers strongly prefer phased bill changes rather than large step-increases at the start of an AMP, and investors consistently emphasise the importance of aligning revenue recovery with the timing of investment. In other regulated sectors, such as the RIIO framework in energy, in-period adjustments are a default mechanism valued for their stability and transparency. Introducing similar flexibility for 2026 growth cost-change requests would better align investment and revenue recovery, reduce bill volatility and strengthen investor confidence.

3.3.2 Investability requires the impact of cost change on RCV to be recognised in-period

There remains ambiguity on the RCV treatment of the proposed additional investment under cost change. Our cost change proposal is based on the principle of RCV adjustments resulting from the newly incurred costs being reflected in the actual RCV as they occur during the AMP8 Period. This will provide ratings agencies sufficient clarity on the underlying value of the RCV ex ante.

Confirming how cost change allowances will be incorporated into the RCV would materially reinforce investor confidence and support sector wide financial resilience during a period of unprecedented investment.

3.3.3 A pragmatic approach to how cost change proposals interact with the existing AMP8 programme

Given the approaches adopted by Ofwat during PR24 and latterly the CMA to setting base allowances solely on econometric models, there is no definitive, robust approach to determine precisely "what base buys" for the categories of investment in scope of the cost change process. The subsequent cost change decisions on "what base buys" have a significant bearing on the risk profiles of the additional cost change investment and overall deliverability. Despite the severe limitations, we have applied a disciplined and pragmatic approach to determining base costs and efficiencies. Our analysis shows that implicit allowance methodologies are highly sensitive to assumptions and can create arbitrary cost challenges that do not reflect underlying engineering or cost drivers. The purpose of the cost-change process is to enable essential investment, not to increase risk. It is essential that Ofwat applies a proportionate and pragmatic approach when reviewing company assessments, recognising that no single methodology provides a uniquely precise answer and acknowledging the wider implications for the overall balance of risk to the delivery of the revised AMP8 investment supported by this cost change process.

3.3.4 A chance to test the broader reforms set out in the Water White Paper

Ofwat can demonstrate the direction of many of the suite of recommendations proposed by the IWC report and reflected in the Government's Water White Paper through adoption and evidencing through its cost change process. For example, Supervision is a central element of the long-term regulatory direction set by the IWC and provides an important opportunity to strengthen confidence in the planning and delivery of essential, long-term infrastructure and strong culture of asset stewardship. The 2026 cost-change process offers a practical early opportunity to pilot a proportionate supervisory approach, enabling Ofwat to test how enhanced oversight can improve assurance, identify a more appropriate level of capital maintenance investment, reduce delivery risk and support a smoother transition into PR29.

3.3.5 The funding for our cost change proposals is not yet secured

As set out above, there is a high degree of uncertainty relating to many of the critical policy positions underpinning the overall financeability of the investments set out in our cost change proposals. These important decisions are now with Ofwat.

These decisions will ultimately have a bearing on the shifts in the regulatory framework post-Cunliffe and help to determine the transition to a longer term, reformed framework.

For the avoidance of doubt, Anglian Water Services is clear that at this proposal stage of the cost change process, the necessary funding to underline the proposals is not secured. Such funding will depend on the overall shape of Ofwat's response to our proposals.

In the event that Ofwat's draft and final decisions create an unacceptable financing and investment proposition, we reserve the right to withdraw our proposals and revert to focus our delivery solely on the PR24 package as recently redefined by the CMA.

3.4 Our stakeholders are aligned on the need for further investment

Our proposed additional investment in asset health and growth is supported by customers, as evidenced consistently across customer engagement carried out for the business plan and more recent engagement with our Online Community cost change engagement (March 2026) and the State of the Nation 2026 Survey. Customers consistently prioritise maintaining and improving core infrastructure to protect reliability, resilience and environmental outcomes, and support proactive investment to ensure networks can cope with future pressures, including population growth, where this prevents service deterioration and environmental harm. While customers remain sensitive to affordability, they show clear support for necessary investment when it is well justified, focused on areas of highest risk and impact (such as asset health and capacity), and funded through predictable, smooth bill changes. Taken together, this evidence demonstrates that our approach–prioritising asset maintenance, resilience and planned growth investment–reflects what customers expect Anglian Water to deliver now and for future generations.

We are working closely and constructively with Ofwat, as our regulator, through the Asset Health Roadmap, recognising its importance as a mechanism to address emerging asset health risks within AMP8 while informing longer term reform. We welcome Ofwat's increased focus on asset condition, resilience and forward looking risk assessment, and have engaged openly to provide robust evidence, share learning from our asset health analysis and support the development of approaches that improve transparency and consistency across the sector. This collaborative engagement reflects a shared objective to ensure investment decisions protect customers and the environment today, while laying the foundations for a more sustainable and resilient approach to asset stewardship ahead of PR29.

The Competition and Markets Authority have deferred to Ofwat on the need for reform and ultimately more investment relating to asset health. This, alongside the emerging asset health roadmap and Cost Change Process, increases the importance of these mechanisms as the primary route for addressing asset risk across the sector.

This raises the stakes on ensuring that these processes deliver effective, timely outcomes. The regulatory regime has not consistently secured the level of asset health investment necessary, and the current evolution of the framework should therefore be seen as an opportunity to strengthen delivery rather than an endpoint in itself.

As already evidenced through our engagement with the process, we view the asset health roadmap as a positive development and are seeking to engage constructively with this evolving process. Our proposals are designed to support its intent, while also addressing critical and sometimes unanticipated risks–such as high voltage power resilience–that were not fully captured within earlier iterations.

3.5 Our approach to developing our cost change proposal

In developing our 2026 Cost Change proposal, we have maintained a strong focus on affordability, financeability and deliverability. We are cognisant of the suite of potentially competing pressures; the additional pressures faced by our region, the need for additional investment, the expectations our customers, our stakeholders, and our regulators.

3.5.1 We expect the full additional investment requirements to evolve during AMP8

We have approached the cost change process in the context that we have greater certainty over some investments now than others.

Through the AMP, our needs may evolve. New priorities are likely to emerge, such as clarity on gated schemes, additional PFAS sites, evolving asset health risks and growth in new locations. Taking a whole AMP perspective allows us to sequence investment sensibly, ensuring we act quickly where the need is highest while maintaining the flexibility to respond to future challenges.

We have maximised the use of existing PR24 allowances to undertake early enabling work that improves cost certainty for later proposals.

3.5.2 Ensuring a smooth transition beyond 2030

A well implemented Cost Change process has the potential to align well with the wider reform agenda. Critically, it recognises the need to make a step change in the levels on investment, specifically in relation to a shift to a sustainable level of maintenance in our core asset base and the potential to unlock government's growth ambitions.

3.5.3 We are confident our costs are efficient, build on our approaches to PR24 and represent good value to customers

In developing this cost change proposal, we have followed the same robust approach to ensuring we are proposing efficient investments as we did in our Business Plan. Our approach and evidence base responds directly to Ofwat's assessment criteria set out in the PR24 methodology and in the cost change methodology. We have structured the evidence base in this proposal accordingly to demonstrate the need for a step change in investment, arriving at the best option for customers, developing robust and efficient costs, and having sufficient customer protection measures in place.

Central to the need for investment has been our prioritisation framework to test whether - in the context of rising bills and a challenging investment environment - an investment truly requires an additional allowance now, and whether deferring the cost change request would support or hinder outcomes for customers and the environment. At an individual investment level, we have also carefully considered and put relevant safeguards in place, to make sure that customers do not pay twice for investments.

We have considered a wide range of options to ensure we are selecting the best option for customers. Throughout the cost change process, our governance has challenged us to focus on those areas where investment will deliver the greatest customer and environmental benefit.

To provide further assurance on cost efficiency, we have used the same cost development approach which generated efficient costs at PR24, drawing on an extensive cost-model library built from outturns of delivered projects. We have cross-checked these estimates against available external benchmarks, including Ofwat's PR24 cost models and independent sources such as TR61.

3.5.4 We propose a range of commitments to underpin the additional investment to ensure visible protection for customers

To ensure customer protection for the delivery of our proposed cost change programme, we are proposing Price Control Deliverables (PCDs) for each investment area. Where a PCD already exists for PR24 investment, we have integrated our cost change proposals directly into those frameworks. Where no PCD currently exists, we have designed new PCDs that balance clarity of outputs with flexibility to adopt better solutions if they emerge during delivery.

3.5.5 Focus of our 2026 cost change proposals and future investment needs

In developing our proposals for the 2026 cost change process, we have focused on the areas where the need for investment is clearest, the evidence base is strongest, and delivery can begin with confidence during AMP8. This approach reflects a conscious decision to bring forward those investments where deferring action would increase risks to customers or the environment, and where solutions, costs and delivery plans are sufficiently developed to support timely implementation.

There are other areas where the underlying need is already emerging, but where the scale, timing or optimal solution is still evolving. In these cases, we consider it more appropriate to continue to build evidence, mature solutions and engage with regulators before seeking additional allowances in 2027 and 2028. This sequencing helps maintain affordability and deliverability, while ensuring that future cost change proposals are well evidenced and targeted.

Looking ahead, we expect that further cost change proposals will be required from 2027 onwards, particularly in response to:

- PFAS and emerging water quality requirements, where regulatory expectations and treatment solutions are still developing; and
- Additional growth pressures, including at further WRC sites and within networks, water supply systems and bioresources, where growth trajectories are becoming clearer but require additional planning and optioneering.

Beyond these, there are other investment areas where the need is currently less certain or solutions are still being developed, but which could reasonably come forward later in AMP8 as evidence and regulatory clarity improve. These include cyber security, further asset health priority areas, Colchester reuse and Cambridge WRC, and major programme development costs for the reservoirs and desalination programme.

This staged approach allows us to act decisively now where investment is most urgent and ready, while retaining flexibility to respond to emerging obligations and growth pressures through future rounds of the cost change process, ensuring customers only pay for investment when it is needed and well understood.

3.6 Our 2026 cost change proposals

A high level summary of our proposals can be found at the front of this document. The detail behind these proposals are set out in ANH-CC26-02 Growth, ANH-CC26-03 storage points, ANH-CC26-04 gravity sewers and ANH-CC26-05 power supplies.

3.6.1 Asset health

Our asset health proposals reflect a deliberate shift towards a more sustainable renewal position, as part of our long term strategy to address intensifying pressures from ageing infrastructure, climate change and rising environmental expectations and implement sustained, planned renewal to maintain secure and resilient services. They are evidence-led, targeted at the highest risks and sequenced to ensure customers benefit from investment that is most urgent and delivers the greatest benefit.

To support affordability and deliverability, our 2026 proposal focus on the most critical asset health classes. Our proposals focus on areas where the need is clearest, and intervention cannot reasonably be deferred.

Accordingly, our proposals focus on three critical asset classes where deterioration presents immediate risks to customers or the environment:

- treated water storage points;
- gravity sewers; and
- high voltage power supplies at strategic sites

3.6.2 Growth

We have a major role in ensuring that water and wastewater infrastructure does not become a constraint on government's ambitions for housing, economic growth and regional productivity, while continuing to protect customers, communities and the environment.

A dedicated ministerial taskforce on growth is providing increasing clarity and pressure on the areas of national economic priority, reinforcing the urgency of timely infrastructure provision. Growth at these locations is central to national housing, productivity objectives and aligns with Ofwat's position that investment in water infrastructure plays a critical role in supporting economic growth as set out in its recent work on the Economic Impact of Water Supply Infrastructure Investment[2].

In parallel, we are seeing accelerating growth pressures at local development sites that were not included in our PR24 plan. These pressures reflect the strength of the vibrant regional economy, but also highlight the need for a flexible, responsive approach to investment. Our challenge is to enable growth in a way that safeguards the environment and maintains affordability for customers.

Our cost change proposal reflects our role as a strategic partner in regional growth delivery. We have focused on high-certainty, time-critical needs where development is already planned or underway, wastewater capacity would become a binding constraint without intervention; and early investment avoids delays to housing and economic activity. Accordingly, we bring forward proposals for Flag Fen (Peterborough) and four smaller Water Recycling Centres where capacity pressures are now imminent. All fall outside PR24 growth allowances but require action within AMP8 to support committed development.

3.7 The scale of investment and impact on customer bills

We request the costs of the investment set out in this proposal are recovered in-period during AMP8. Our customers have told us they prefer bills to be smoothed rather than one-off bill shocks. Recovering costs as the investment is made is also important to demonstrate wider investability in the sector.

The impact of our cost change proposals is modest. Assuming in period adjustment is allowed, household customer bills, on average, will be £1.84 per day excluding inflation. This is an increase of 2p per day on the 2029-30 bill reflected in the final CMA redetermination.

2 https://www.ofwat.gov.uk/wp-content/uploads/2026/03/Economic-Impact-of-Water-Supply-Infrastructure-Investment.pdf.

We recognise that any additional costs could result in additional pressure on the households who struggle to pay their bills. We are confident we have the right support in place to support customers afford their bills by having concessionary tariffs available for up to half a million customers, or other support as may be identified by our ExtraCare team.

3.8 We are confident our cost change proposals are deliverable

In our PR24 plan, we recognised that the scale and ambition of the AMP8 investment programme had inherent delivery challenges relative to previous AMPs. We therefore took decisive action to ensure it was deliverable. We undertook a comprehensive assessment of delivery risk and implemented targeted mitigations strategies from the outset, including strengthened, relationship based supply chain arrangements, enhanced programme governance, actions to reinforce supply chain resilience, and increased internal challenge and assurance. Our delivery plan was co-developed with our long standing alliance partners, embedding a realistic and evidence based understanding of delivery risk, market capacity and construction sequencing directly into the programme design

This early and rigorous preparation is translating into delivery. After the first year of AMP8, our expenditure and delivery milestones are on track, and we have outperformed several of our Year 1 targets on mains renewal, metering and P-removal by accelerating delivery that had been planned for later in the AMP. The majority of enhancement projects have been released to the supply chain, our major projects framework is fully operational, and the core delivery infrastructure required to sustain performance at scale is firmly in place. This strong start provides tangible evidence of our ability to manage a large, complex programme while maintaining control, pace and quality.

This proven delivery capability and ability to accelerate material elements of the programme, combined with the active identification and management of deliverability risks, underpins our confidence in delivering the proposed additional investments through the cost change process. The programmes included in this 2026 proposal have been assessed and we are confident their planning complexity is low and the investments have clear deliverability profile. We have engaged early with delivery partners to confirm supply chain capacity and internal governance readiness, and the enabling works have been proactively sequenced to avoid delay.

While specific delivery risks remain in some areas, such as the competition for specialist resources in the storage points supply chain, these are being actively managed through innovative delivery, alternative technical solutions, and close market engagement. Across all proposed investments, supply chains are established, deliverability risks are predominantly assessment as low to medium, and where risks are higher they are addressed through integrated and flexible programme design. Taken together, this provides strong assurance that additional investment can be delivered efficiently, on time and at scale.

3.9 Our commitments to customers

Our proposed Price Control Deliverables (PCDs) set out a clear and transparent commitment to customers that the additional investment we are seeking will deliver tangible improvements to service reliability, resilience and environmental protection. The proposed measures provide reassurance that funding will be used efficiently and responsibly, with progress measured against outcomes that matter most to customers.

Through our PCDs, we are committing to protect customers from the risks of non delivery, while retaining the suitable flexibility needed to manage complex, condition led asset health interventions and emerging pressures such as growth and climate change. This ensures that solutions can evolve as new information becomes available, without compromising accountability or value for money.

Above all, our approach reflects a long term commitment to looking after customers today and safeguarding the environment for future generations. By combining clear delivery commitments with transparent reporting and independent assurance, our PCDs provide confidence that investment will deliver lasting benefits–supporting resilient services, healthier rivers and trusted outcomes for the communities we serve.

3.10 Guide to our cost change proposal

We set out our main narrative in this document providing an overview of

- Support for our proposals
- A focus on asset health
- Deliverability
- Driving cost efficiency
- Our commitment to customers
- Assessing investability and financeability
- The impact of our requests
- Governance and assurance
- Our asks of Ofwat

The detailed evidence supporting each of our proposals are set out in four documents:

- ANH_CC26_02 Cost Change proposal: Growth
- ANH_CC26_03 Cost Change proposal: Storage points
- ANH_CC26_04 Cost Change proposal: Gravity sewers
- ANH_CC26_05 Cost Change proposal: Power supplies

There are a number of supporting documents which are referenced throughout the documents.

4 Support for our proposals

4.1 Customer priorities are shaping our investment choices

Our proposals are grounded in a clear and consistent understanding of customer priorities. Customers tell us that they want bill increases to be managed smoothly over time and that the delivery of safe, clean water must remain the overriding priority. These views have been tested and validated through engagement with our Independent Challenge Group, direct customer insight via our Online Community, and feedback captured through our ongoing day to day interactions.

In line with Ofwat's Consumer Involvement Rule, we have used insight from engagement to inform decision making on matters with material impacts on customers and the environment, rather than being limited to post consultation. The proposed investments are targeted to deliver material benefits for customers and the environment, with a clear focus on risk reduction, resilience and long term value.

Increasing investment in storage points will materially reduce the risk of unplanned outages and loss of supply to customers.

Rehabilitating up to 9km of our highest risk sewers will reduce the likelihood of sewer collapses, pollution incidents and internal flooding, while also reducing spill events. This supports improved environmental outcomes alongside greater service reliability for customers.

Replacement of high voltage electrical assets at critical sites will reduce the risk of widespread service disruption arising from power failures, protecting supply continuity for approximately one million customers and lowering the associated risk of pollution and spills.

Investment in five Water Recycling Centres (WRCs) to accommodate growth will support government objectives for economic development while protecting environmental performance. The proposed schemes will increase treatment capacity by over 60,000 population equivalent (P.E.), increasing the scale of our existing AMP8 growth programme by a fifth.

Increasing our capacity to accommodate additional flows will also reduce the risk of pollution and spill events associated with growth driven increases in wastewater volumes.

Together, these investments reflect customer priorities, address the most significant service and environmental risks, and provide a proportionate and targeted response within the context of overall affordability and bill smoothing.

4.1.1 Talking with our Independent Challenge Group

Our Independent Challenge Group has continued to meet since our PR24 Plan and plays an ongoing role in holding us to account. The Group provided independent challenge to ensure transparency that commitments made to customers are delivered, and that engagement continues to evolve beyond consultation towards genuine involvement and co-production of outcomes, consistent with the expectation set out in the Consumer Involvement Rule.

We tested our cost change proposals with the ICG in March 2026. The Group was supportive of our overall approach, including the focus on targeting the highest risk areas, the clarity of the customer and environmental benefits, and the proposed approach to managing bill impacts.

4.1.2 Engaging our Online community

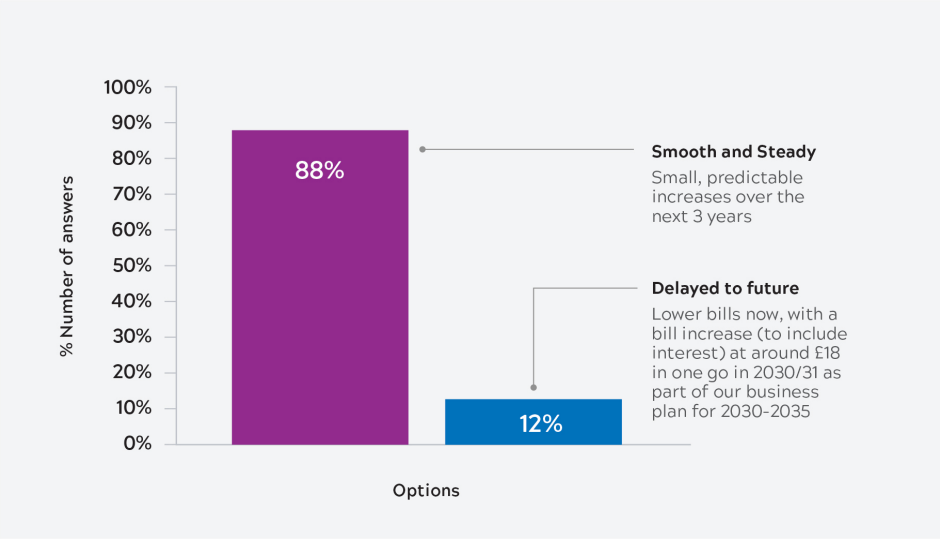
In March 2026, we undertook bespoke engagement with our Online Community to understand customer preferences in relation to both bill impacts and the prioritisation of the proposed investments[3]. This engagement was deliberately designed to influence our proposals rather than merely validate them. The insights gained provided clear direction and have directly informed the design of our proposals.

Customers expressed a strong preference for smooth and predictable bill changes, with 88% favouring this approach over deferred recovery. This insight has directly informed our request for in period revenue adjustments, helping to avoid sharper bill impacts in 2030. Customers consistently told us that smaller, predictable increases are easier to budget

3 See ANH-CC26-08 for the survey and ANH-CC26-09 for the Insight Report

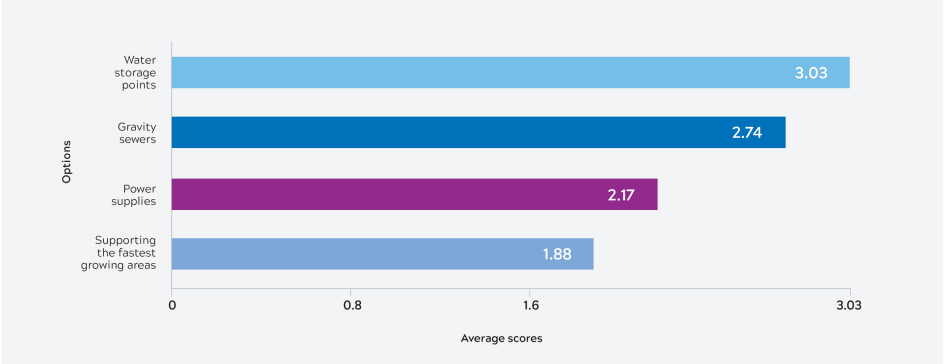
for and feel more manageable, particularly in the context of ongoing cost of living pressures. Many also highlighted that sudden step changes in bills would be significantly harder to absorb than gradual increases spread over time.

Figure 1 Customers preference for bill smoothing



When asked about investment areas, customer prioritisation aligns closely with our proposal, which focuses on asset health and resilience led investment. Online Community respondents selected water storage points as the top investment priority, reflecting the ongoing, long-term customer engagement which consistently places safe and reliable drinking water as the number one priority for customers. Water storage was viewed by customers as critical infrastructure, emphasising supply resilience, drought protection, and long term security, and often link storage directly to climate change, population growth, and avoiding risk of future shortages.

Figure 2 Customer priorities for our proposals



4.1.3 Insight from everyday conversations with our customers

Alongside formal engagement, we continually engage with customers through day-to-day interactions, complaints, local issues and service contacts. These lived-experience insights complement structured research and help us understand the real-world impact of decisions, a core expectation of the Consumer Involvement Rule.

Customer evidence demonstrates strong and consistent support for Anglian Water prioritising asset health and resilience, alongside planned investment to accommodate future growth, where this protects service reliability and the environment. This position is clearly articulated across both the State of the Nation Survey 2026 [4]and the independently assured Customer Engagement Synthesis Report[5], which together provide a robust and triangulated view of customer expectations.

Asset health as a core customer priority

The Synthesis Report shows that customers consistently prioritise the maintenance and improvement of existing assets as fundamental to delivering safe, reliable services now and in the future. Across multiple studies, customers link good asset health directly to outcomes that matter most to them, including uninterrupted water supply, flood prevention, pollution reduction and environmental protection. Customers express a

4 See ANH-CC26-06 for the Anglian Water State of nation questionnaire and ANH-CC26-07 Anglian Water State of the National Survey 2026 Report
5 Customer Synthesis Report August 2024

strong preference for proactive maintenance over reactive repair, recognising that failing to invest in asset health increases the risk of service deterioration, disruption and higher costs in the long term.

This pattern is reinforced by attitudes to resilience and long-term planning. Customers expect Anglian Water to plan ahead for climate change, population growth and ageing infrastructure, and generally view early investment in asset maintenance as both responsible and necessary. While affordability remains an important consideration, customers indicate that protecting core services and avoiding decline is a clear priority, even if this requires gradual bill increases, provided these are transparent and well explained.

Conditional support for growth-related investment

Findings from the State of the Nation Survey 2026 indicate that customer attitudes to population growth are best described as conditional. Although a notable proportion of customers express concern about growth, these concerns are overwhelmingly focused on whether existing infrastructure can cope, rather than a rejection of growth itself. Customers are particularly worried about pressure on water and sewerage systems, increased flooding risk, and impacts on rivers and the natural environment where capacity is not put in place early enough.

Crucially, when asked what is most important in supporting population growth, customers consistently prioritise ensuring water and sewerage networks are improved before, or alongside, new development. This positions Anglian Water's role not as enabling growth for its own sake, but as protecting existing customers, communities and the environment from the consequences of under-investment or delayed responses to increased demand.

Alignment between asset health and growth investment

Taken together, the two evidence sources show that customers do not view asset health investment and growth-related investment as competing priorities. Instead, customers expect us to take a joined-up approach, where maintaining and strengthening existing assets also ensures that the system can safely accommodate future growth without increasing pollution, flooding or service failures. Growth-driven investment is therefore most acceptable where it is framed as system resilience, protecting current customers and environmental outcomes, rather than simply facilitating development.

The Synthesis Report further highlights that customers place higher value on investment where risks feel immediate, shared and unavoidable, such as sewer flooding, pollution incidents or water supply interruptions. Where growth exacerbates these risks, customers expect action now rather than deferral to future periods. There is also clear evidence that customers prefer steady, proactive investment to avoid sharper interventions or higher costs later, aligning with wider preferences for predictability and long-term value for money.

Overall customer mandate

Overall, the evidence demonstrates a strong customer mandate for Anglian Water to:

- Maintain and improve asset health to protect reliability and environmental performance;
- Invest early to ensure infrastructure can cope with forecast population growth;
- Avoid deterioration in service for existing customers; and
- Take a planned, preventative approach rather than reacting to failure after it occurs.

Our approach reflects both the letter and the spirit of the Consumer Involvement Rule ensuring decisions are informed by customer priorities, shaped through meaningful engagement, and focused on delivering outcomes that protect customers, communities and the environment now and in the future.

4.2 Working with our Regulators and stakeholders

Supporting growth while maintaining environmental compliance

We are working closely with our regulators and stakeholders to navigate the path between supporting sustainable growth whilst ensuring the environment remains protected. DEFRA's establishment of the Water Delivery Taskforce in May 2025 has helped bring cross-government focus to water-related constraints on economic development. However, the scale and pace of some major developments–such as Universal

Studios–mean that decision-making and delivery mechanisms need to move faster. Addressing these challenges will require greater innovation, increased flexibility, and more collaborative ways of working across the system.

Engagement with local authorities and elected representatives

We have been actively engaging on growth across multiple county areas, working with Local Planning Authorities and County Councils, and holding dedicated sessions with elected Members (Councillors and MPs) across Essex, Lincolnshire, Norfolk, Buckinghamshire, Cambridgeshire, Bedfordshire, Suffolk, Northamptonshire and Nottinghamshire. These discussions have been used to set out our current growth plans, explain where and why objections or conditions apply, highlight where investment is already planned, and better understand the status and phasing of individual Local Plans.

As part of the development of our Drainage and Wastewater Management Plan (DWMP) and Water Resources Management Plan (WRMP), we have also held a series of webinars with LPAs to request updated growth forecasts across all Water Recycling Centre (WRC) catchments. This has enabled us to validate our assumptions and improve alignment between local planning trajectories and water infrastructure provision.

Regulatory engagement

We maintain regular engagement with the Environment Agency, including monthly operational meetings and quarterly strategic forums focused on growth pressures and specific development sites. On asset health, we are working closely with Ofwat to improve the shared understanding of asset condition across several key asset classes and to ensure alignment between regulatory expectations and delivery plans. We continue to play a central role in Ofwat's Asset Health Roadmap development and design and how this on-going process bridges into the cost change programme, in recognition of that during PR24, Ofwat's approach to asset health was insufficient.

Drinking water quality and storage points

We, customers, and the DWI are aligned on the criticality of storage points in ensuring a wholesome, continuous supply of water is provided to customers. Ofwat also recognise this given storage points are classified a priority asset class under the Ofwat AH Roadmap. On 30 April 2026 the DWI issued a letter of support [6] with regards to our proposals. Following a detailed assessment of our proposal, they confirm they support our request for additional investment to be delivered by 31 May 2030.

Our engagement with the DWI on the performance and management of storage points has intensified. The DWI put in place enforcement action for Anglian in 2022 outlining a "minded to enforce" position before issuing individual regulation 28 notices for individual tanks that were out of the 10 year period. Throughout 2025, we have engaged substantively sharing detailed inspection results, deterioration trends, and operational challenges–particularly the implications of taking tanks out of supply. This engagement has culminated in a series of meetings across the summer followed by the issuance of the Provisional Enforcement Order covering the whole company rather than individual tanks in January 2026.

Place-based delivery and local coordination

For asset health investments, we are actively engaging with local authorities to provide oversight of our programme of works as a coordinated, region wide initiative rather than on a scheme by scheme basis. This place based approach is intended to minimise road closures and reduce disruption to local communities. We are also working with other major infrastructure providers to identify opportunities for aligned planning and coordinated delivery, further reducing disruption from construction activity.

Consents, permits and regulatory pathways

Several cost change schemes will require new or amended permits, planning consents, or technical proposals. We are progressing these proactively. For each relevant scheme, we have mapped the regulatory pathway, prepared early technical information, identified land requirements, and defined critical ecological windows. This approach supports aligned design assumptions, reduces the risk of late change, and allows scope or delivery phasing to be adjusted where regulatory requirements evolve–without losing control of time or cost.

6 ANH-CC26-19

5 A focus on asset health

5.1 Asset health is critical

The long term health of water and wastewater infrastructure underpins everything water companies do, including performance against a range of measures.

Recent incidents affecting other companies are a visible reminder of the serious impact infrastructure failure can have on customers. Deteriorating asset health increases the risk of service failures and high remediation costs, while suppressing essential investment only pushes it into the future, unfairly storing up costs and risks for future generations.

We continue to work with Ofwat to develop its approach to asset health. This includes collection of condition grade data. In response to an industry request, on 1 May we submitted condition grade data for six asset classes. This provides evidence to demonstrate that a proportion of our assets in the worst condition grade bands (4/5) and therefore supports the case for additional replacement expenditure.

5.2 Our approach to asset management

Asset stewardship is a key area of focus for our business. We were one of the first companies in the world to achieve ISO55001 Asset Management Standard, and Ofwat's 2021 AMMA analysis, identified Anglian as the highest scoring company for asset management maturity in the sector [7].

For PR24 we proactively developed an Asset System Resilience Appraisal (ASRAP), an in-depth review of our entire asset base that uses advanced digital tools, including a predictive analytics module, to forecast our long term asset needs. The process we followed to produce the ASRAP is a robust foundation for the new approaches being discussed for PR29, particularly NARM.

5.3 Ofwat's current approach to capital maintenance allowances

We have long been concerned that Ofwat's current approach to setting capital maintenance allowances, based on backwards looking econometric models, has resulted in persistent and significant underfunding [8]. This is a deep concern to our customers and is undermining the sector's ability to attract essential investment by producing disproportionate, unfunded risks.

Given the importance of this issue we have been active in advocating for a change of approach, for example, in our 2007 Strategic Direction Statement, at the CMA in PR19, the development of PR24 methodology, and again at the CMA in PR24.

Our concerns are now widely shared. The need for an alternative approach has been recognised by multiple organisations, including the CMA at PR19 [9] and the National Infrastructure Commission[10]. Both Scotland and Northern Ireland's water regulators have taken action to reform their approaches. More recently the IWC concluded that 'the current regulatory approach to infrastructure resilience is not adequate'[11] and recommended the development of statutory resilience standards to 'drive the action and funding necessary to ensure these assets are fit for the future"[12].

These concerns have been recognised in the Water White Paper, which sets out a clear intention to 'shift to a system where assets are properly maintained ... with the right funding and incentives to ensure the long-term resilience of asset bases[13].

7 Anglian Water, March 2025, PR24 CMA Redetermination Statement of Case, pages 84 and 85
8 See Bush & Earwaker Providing Appropriate Regulatory Funding for Capital Maintenance Activity Ensuring Capital Sustainability and Service Resilience (May 2019)4a-providing-appropriate-regulatory-funding-for-capital-mainteance-activity.pdf and the Asset Management Maturity Assessment and the Infrastructure health in the water sector, developed with participation from Water UK, Ofwat and the Department for Environment, Food and Rural Affairs, and supported by ReckonInfrastructure health in the water sector | Water UK
9 At PR19 the CMA called for Ofwat to develop forward-looking asset health metrics
10 See NIC, Developing resilience standards in UK industry (September 2024), page 9
11 IWC, July 2025, Final Report, page 382
12 IWC, July 2025, Final Report, page 8
13 A New Vision for Water, January 2026, Defra, page 37

5.4 What is a sustainable level of capital maintenance allowances

As noted above, the water regulator in Scotland (WICS) reformed its approach to approach to capital maintenance for the strategic review of charges in 2021 (SRC21). The new approach reflects companies' costs of replacing all their replaceable assets over the course of their reasonable asset life (and, maintaining 'infinite-life' assets into perpetuity). The new approach resulted in a 78% increase in Scottish Water's capital maintenance spend and Scottish Waters' latest business plan (for 2027) proposes a further increase on top of that outlined in SRC21.

When the same approach was applied to water companies in England and Wales by consultants Economic Insight, the results were striking. Companies appear to be spending less than half of what they would need to sustainably maintain their networks over the long term[14]

Working with other water companies and Water UK we recently convened anAsset Health Summit at the Institute of Civil Engineers. Collectively we will commence the next phase of research, focussing on how the approach to setting capital maintenance allowances could work. Ofwat have agreed to sit on the steering group for this work, and we hope it will ultimately inform the development of the PR29 methodology.

5.5 The role of Ofwat's Asset Health Roadmap and Cost Change process

We welcome Ofwat's increased focus on asset health in the Asset Health Roadmap and the Cost Change process, we have engaged fully and constructively throughout the process and will continue to do so. We note that the CMA's position on asset health, combined with the direction expressed in the Water White Paper, place additional emphasis on these processes to support a change in direction to address urgent needs ahead of a fundamental reset at PR29.

It is critical that we start to act now. The Cost Change process should be viewed as part of the longer-term trajectory of increasing investment in essential capital maintenance.

14 Economic Insight, March 2026https://www.water.org.uk/sites/default/files/2026-04/Estimating-sustainable-asset-replacement-expenditure-in-the-water-industry-18-03-26-STC.pdf .

6 Deliverability

6.1 AMP8: delivery so far

6.1.1 Our position after the first year of AMP8 is strong, and on track

Our AMP8 delivery plan was developed with our long-running supply chain partners; has been subject to independent, third-party assurance; and that we have deliberately chosen an approach which prioritises stakeholder confidence in our delivery reporting.

Our delivery performance in Year 1 has been strong. We released over 1,000 investments to our delivery vehicles and our year 1 expenditure and capital delivery milestones remain on track for successful delivery of AMP8. Our strategic delivery vehicles are fully mobilised and our Programme Delivery Partner (PDP) is in place, completing the commercial platform for the programme.

As expected, we have started on the front foot, overachieving against several of our business plan commitments for Year 1. In other investment areas, we have made strong early progress to establish the foundations required to support delivery at pace in future years. Subject to completion of independent assurance, we expect to report a PCD time incentive reward for Year 1 due to our overachievement against Year 1 targets for mains renewal, metering and P-removal. We also have schemes which are forecast to deliver materially early - our phosphorus removal schemes are forecast to delivering 16 months ahead of planned, and our storm overflow programme is also materially ahead. We anticipate carrying this momentum into Year 2 of delivery, with committed programmes already in construction or advanced design, and supply chain capacity secured.

Year 1 performance demonstrates a strong and controlled financial position against our allowed totex. Forecast actual expenditure, subject to audit, is £2,106bn[15] (this £11m variance represents just 0.5% of our allowance).

Our performance to date and ability to accelerate material elements of the programme should provide a strong signal that Ofwat can have confidence in our cost change proposals. We are demonstrating the maturity our programme governance and the performance of our supply chain partnerships in a live environment. It gives us confidence that the additional, targeted allowances that we are requesting as part of the cost change process can be delivered in the same disciplined and controlled way.

6.1.2 Maturity of our approach

We enter this cost change process from a position of delivery strength and organisational maturity. We have a number of long-standing, high-performing alliance partnerships that provide deep system and network knowledge, continuity and pace. These are complemented by the recent appointment of a new PDP which adds further strategic capacity and independent challenge.

Together, these arrangements strengthen our ability to respond effectively to changes in scale, scope and regulatory expectations, while maintaining tight control over risk, cost and performance. Crucially, we are already preparing for the next phase of delivery: we are actively out to market for a further c.£1.5bn major infrastructure framework, securing future delivery capacity early and aligning it to our long-term investment trajectory.

This proactive approach demonstrates not only that we are ready to deliver the existing programme but also taking steps to sustain higher levels of investment with confidence and control.

6.2 We are confident we can deliver our proposals

We have assessed our capacity to deliver our cost change proposals in addition to our existing AMP8 plan. We have good evidence that our supply chain, governance and risk management are robust and capable of delivering our full programme, delivering for customers, growth and the environment in a way that would be impossible without the additional investment. Our confidence stems from the lessons we have learned from AMP7, our successful delivery to date, and the deliberate maturing of our deliverability risk mitigation strategies.

15 Numbers are subject to audit and will be reported in the Annual Report in July 2026

First, we have a firm bedrock for delivery: we strengthened our delivery capacity ahead of AMP8 and this is already showing results. In preparation for the step change in delivery over AMP8, we assessed in detail the delivery risks we face, and put mitigation strategies in place to manage them. We are working with our newly procured Programme Delivery Partner to strengthen delivery governance and scrutiny, strengthen our approach to delivery risk management, increase supply chain resilience, and continue to strengthen our relationships with our supply-chain partners, which has been one of our long-standing strengths.

Second, in developing our view on the deliverability of this additional investment, we have engaged early with our delivery partners and considered the capacity and capability of our supply chain and have reassured ourselves that we are in a strong position to deliver our proposals. Early involvement of our existing supply chain in developing our investment cases also reduces uncertainty and manages delivery risk. Suppliers contribute to cost development, delivery sequencing and timelines, and use commercial models that are aligned with our business plan.

Third, our robust engagement with our supply chain partners makes us an established client of choice within the industry, which in turn brings significant delivery benefits. For example, we are currently tendering a major infrastructure framework to appoint new Tier 1 suppliers. This process has had unprecedented levels of interest from both incumbent suppliers, and new entrants, including from suppliers new to the water sector. We do not expect to procure additional frameworks in respect of these cost change proposals specifically, but the extent of interest in our major infrastructure framework reassures us that we could access a broader pool of additional supply chain capacity if required.

Finally, the size and nature of our AMP7 and AMP8 programmes have given us depth and breadth of experience in managing third-party risks such as planning and permitting. We manage these risks through early engagement with regulators and planning authorities, realistic contingency planning and robust programme management.

6.3 Deliverability by cost change proposal

6.3.1 Asset health improvements

For our asset health proposals, storage points, gravity sewers, and power supplies, our proposals represent a transition phase from AMP8 towards a higher steady-state level of capital maintenance required in AMP9 and beyond. This early intervention supports smoother delivery profiles, and a more credible basis for our business plan for PR29. Delivering additional interventions within AMP8 not only brings forward the benefits to customers and the environment but also mitigates the challenge of ramping up for a higher rate of delivery in AMP9.

For the proposed additional storage point investment, delivery in the first year of AMP8 has already exceeded the total expenditure across AMP7, demonstrating our capability to ramp up at pace. We are mitigating the principal risks to this programme, supply chain capacity, through an innovative delivery approach, including the use of alternative delivery vehicles and the development of a strong and visible pipeline of work, which is regularly communicated to suppliers to manage resource constraints. We are also making greater use of complementary solutions, such as asset removals and the deployment of temporary assets, while ensuring network resilience is maintained. The storage point programme has been designed to be fully integrated and dynamic, allowing delivery to continue across the wider portfolio should risks materialise on individual projects.

The proposed additional gravity sewer investment is well-defined and we consider that the associated deliverability risks are low. This reflects the targeted and relatively low volume nature of the investment, which is focussed on an established asset with a clear need arising from high failure risk. The supply chain is established and proven, and delivery will be supported through extensions to existing supplier arrangements, avoiding the need to integrate new suppliers or manage novel scheme types.

We are actively managing deliverability risks associated with power supply resilience, which primarily relate to supply chain capacity and market conditions, including high cross sector demand, potential extended lead times, and price volatility. Our success in managing these risks for delivery

of our existing programme gives us confidence we can continue to manage them, particularly given this is a targeted and relatively small package. The supply chain is established, and we will prioritise early engagement to secure capacity and position the programme early in the delivery queue, supported by close engagement to monitor risk realisation and support timely delivery.

6.3.2 Water recycling growth

We are confident in delivery of our water recycling centre growth programme proposal because it is a focused extension of our AMP8 programme and the requirements are already well-understood. Our proposal adds four sites to our existing programme of 63 and expands the work we have already planned at one of the existing growth sites and one of Government's identified growth priority areas, Flag Fen (Peterborough). Our established supply chain is familiar with the likely scope of work, and the schemes are 'shovel ready'. Our past performance gives us confidence that deliverability risks are low, but we acknowledge that there are some limited interactions with third parties and the planning regime. In line with Ofwat's wider approach to PCD flexibility, we welcome the extension of PCD protection such that automatic claw-back for delayed delivery will not be triggered if the investment is substantially but not entirely completed by 31 March 2030 [16].

16 Ofwat (February 2026) "Price control deliverables guidance"

7 Driving cost efficiency

7.1 Robust and efficient costs

Cost efficiency is of paramount importance. It is embedded throughout our cost change approach.

As was the case in our PR24 business plan, cost efficiency has been embedded throughout the development of our proposals, from early optioneering through to final cost estimation and assurance. We are pleased that at PR24, our enhancement costs were assessed by Ofwat as being efficient and this was further supported by the CMA's PR24 redetermination.

Since PR24 we have continued and strengthened cost benchmarking across our plan, deploying a range of complementary benchmarking approaches to test the efficiency of our proposed costs. We apply a combination of top-down econometric benchmarking and bottom-up, scheme-level assessments, applied proportionately to the scale and nature of each investment. This approach enables us to assess efficiency both at a portfolio level and for individual activities and schemes.

Specifically, we have used:

- PR24 unit cost and econometric benchmarks where applicable;
- Internal benchmarks based on historical outturn costs for comparable schemes;
- External industry benchmarks, where available.

The cost estimation methodologies used to develop our proposed costs are transparent, well-established, and consistent with industry best practice. Detailed cost breakdowns have been prepared at scheme level, clearly showing all elements of cost build-up and demonstrating that there is no overlap with PR24 base or enhancement allowances.

Our cost estimation approach has been subject to independent third-party commercial assurance by Jacobs[17], providing confidence that the methodologies applied are robust and that the resulting costs are efficient and reasonable.

Where external benchmarks differ from our bottom-up cost estimates, we have undertaken a detailed assessment to understand the underlying drivers of any variance, and we clearly set out in the specific investment cases where and why our unit costs reasonably differ from benchmarks. These explanations are grounded in scheme-specific or company-specific factors, including those outside of management control (for example, location-specific constraints, asset configuration, or regulatory requirements).

Overall, we are confident that our approach provides sufficient and convincing evidence that the proposed costs are robust, efficient and represent best value for customers, consistent with Ofwat's expectations for investment proposals under the PR24 cost change process.

We provide further details on the cost estimation methodology we have deployed below. We also set out the investment specific information in the investment specific documents.

7.1.1 Consistency with our PR24 cost estimation methodology

In developing our cost change proposal, we have applied the same cost estimation methodology that underpinned our PR24 business plan, ensuring a consistent approach with the underlying assumptions and governance of our PR24 plan and the additional cost change investment.

We have used a robust and scalable cost estimation framework capable of supporting over 500 individual investments, each with multiple alternative options assessed. This approach ensures that:

- costs are directly comparable with those included in our PR24 allowances;
- any efficiencies achieved since PR24 are embedded into the baseline rather than treated as incremental; and
- customers are protected from paying more than is necessary for additional investment.

17 See ANH-C26-05

7.1.2 Rigorous and consistent cost capture

Our cost capture system contains over 250,000 data points from over 32,000 projects, facilitating the production of in excess of 4,000 cost models and the analysis of cost efficiencies and uncertainties materialised. We access these cost models via a customised system in which we input key asset attributes such as length, diameter, surface type, power rating or volume. We can also add known complexities such as archaeology and ecology requirements, or planning permission and power supply costs, as well as adding operational cost forecasts for the period following commissioning.

We use an alliancing approach to deliver investment which incentivises our delivery teams to work efficiently, taking advantage of the latest innovations in technology and thinking to reduce cost and carbon whilst maximising value.

Critically, this approach to cost capture means that as efficiencies are achieved, they inform updates to the models used to estimate future projects, creating a learning loop and ensuring that customers benefit from previous efficient delivery in future price reviews and cost change proposals.

7.1.3 Internal cost estimation assurance process

Every cost estimate in our plan, both selected and non-selected options, has been assured by our internal Cost Intelligence team.

We gather as much information as possible about the asset types and dimensions, challenge the scope required, and then use our cost capture system to collect typical project scope and location factors that support the assumptions we need to apply to new projects. These historical projects are also used as a baseline to benchmark the total costs of the schemes.

Known scheme-specific complexities, including archaeology, ecology, planning constraints, power supply requirements and post-commissioning operational costs, are added transparently and systematically. This ensures that differences in cost reflect genuine delivery drivers, rather than methodological inconsistency.

This same approach has been applied to the investments proposed through the cost change process, ensuring that cost build-ups are consistent with PR24, fully traceable, and supported by clear assumptions.

7.1.4 External independent assurance and efficiency lock-in

Our PR24 cost estimation process was subject to independent assurance by Arup, who reviewed our cost capture and modelling approach. Arup concluded that, across all areas reviewed, the methodology achieved a 'green' rating, confirming that: recommendations from previous assurance reviews had been addressed; positive findings and clearly evidenced actions were in place; and processes were well managed, documented and operating effectively.

This assured methodology has been retained without material change for our cost change proposal, providing confidence that the proposed costs are derived using the same robust and independently validated framework as PR24.

By continuing to use this approach, we ensure that:

- efficiencies delivered during AMP7 and early AMP8 are locked into the cost baseline;
- proposed costs reflect latest outturn intelligence, rather than inflated or historic assumptions; and
- any differences from PR24 benchmarks or allowances are driven by scope and need, not changes in costing methodology.

7.1.5 Alignment with PR24 benchmarking and efficient cost assessment

Overall, the continuation of our PR24 cost estimation methodology provides sufficient and convincing evidence that the costs proposed through this cost change proposal are robust, efficient and consistent with the allowances set at PR24, fully aligned with Ofwat's expectations under the Robust and efficient costs assessment gate.

The table below summarises the checks we have used in each cost area to ensure we are proposing efficient cost change requests.

Table 1 Summary of our checks to ensure our costs are efficient

Cost change area	Benchmarking and cost challenges applied	Benchmarking findings
Growth at Water Recycling Centres	Historic outturn costs Comparison of costs with PR24 STW growth and transfers econometric models Independent challenge and assurance from cost intelligence function External commercial assurance from Jacobs	4 of 5 schemes have costs in line with or lower than expected by PR24 models. Our largest scheme (Flag Fen) is the exception. For this, we have undertaken a deep-dive on the cost variation. The variation is explained by the PR24 model not appropriately reflecting significant cost drivers at the site. These are explained in detail in the WRC growth proposal and cost breakdowns.
Asset Health - Storage points	Historic outturn costs Independent challenge and assurance from cost intelligence function External commercial assurance from Jacobs	Historical outturn costs have been built into our cost change proposal, following the same approach as other cost change schemes and our PR24 enhancement schemes which were assessed by Ofwat as being efficient.
Asset Health - Gravity sewers	Historic outturn costs External benchmarking against TR61 data Independent challenge and assurance from cost intelligence function External commercial assurance from Jacobs	Relining (no-dig) costs are lower than the TR61 benchmark. For open-cut construction, historical outturn costs have been built into our cost change proposal, following the same approach as other cost change schemes and our PR24 enhancement schemes which were assessed by Ofwat as being efficient.
Asset Health - Power supplies	Historical outturn costs Market testing via competitively procured supply chain frameworks Independent challenge and assurance from cost intelligence function External commercial assurance from Jacobs	Historical outturn costs are built into our proposed costs. These costs are in line with the market testing benchmarks.

We are confident that the costs in our cost change proposal are efficient. Ofwat and the CMA assessed our enhancement costs at PR24 as being efficient. Since then we have developed and continued to use the same approach to developing our costs, which embeds historic outturn cost benchmarks into the cost build-up of our cost-change schemes. Supporting this view, where external benchmarks are available, these have found our costs to be efficient.

7.1.6 Frontier shift

In line with Ofwat's requirements, we have completed the data tables for our proposals before the application of frontier shift and real price effects. In line with the CMA PR24 Final Redetermination we expect Ofwat to apply a frontier shift of 0.7%[18] per annum.

18 See para 58 PR24 Final determinations summary https://assets.publishing.service.gov.uk/media/69afb3e2917847c0a4c89a23/PR24_Final_determinations_summary.pdf

8 Our Commitment to Customers (PCDs)

8.1 Our approach and proposed Price Control Deliverables (PCDs)

We continue to share Ofwat's view that, given the scale of investment required in AMP8 and beyond, customers should have confidence that the investment they are paying for through bills will be delivered. Consistent with this principle, we have proposed Price Control Deliverables (PCDs) for each element of our cost change proposals.

In doing so, we have sought to strike a proportionate balance between providing effective customer protection and retaining sufficient flexibility to manage emerging risks and uncertainties during delivery. This balance is particularly important for cost change PCDs, as the majority relate to the sector-wide drive to improve asset health, where interventions are condition-led, often complex, and may need to adapt as new information becomes available. Designing PCDs in this way also incentivises innovation and supports efficient, outcome-focused delivery for customers and the environment.

The table below sets out our proposed cost change PCDs. In developing them we have, in line with the cost change process guidance:

- Built on existing PR24 Final Determination PCDs where there was appropriate alignment, and accounted for any potential overlap;
- Introduced non-delivery underperformance incentive rates across all cost change areas, and time incentives where appropriate to balance delivery confidence and customer protection;
  - Time incentive rates have been calculated in line with the PR24 approach and updated for the CMA's final determination WACC;
  - Incentive rates are set gross of totex cost sharing. If required, we will review calibration against other cost and risk-sharing mechanisms as the cost change process progresses;
- Reflected implicit allowances and associated outputs in PCD design where this was proportionate and appropriate to protect customers; and
- Defined clear, measurable outputs that customers can expect from the additional investment, including how delivery will be measured, reported and independently assured, and any conditions applying to the associated expenditure.

Table 2 Our proposed cost change price control deliverables (PCDs)

Cost change area	PCD metric	PCD Totex £m
Growth - WRCs	PCDWW27 PR24 Growth at STWs (as updated for cost change scheme proposals)	135.8[19]
Asset health - gravity sewers	Expenditure on proactive gravity sewer renewals meeting defined, asset health aligned, characteristics	20.2
Asset health - gravity sewers proactive inspections	km of gravity sewers subject to proactive inspection	11.0
Asset health - network storage points	Nr of network storage points renewed (ie: refurbished or replaced)	217[20]
Asset health - critical power supply infrastructure	Expenditure on power supply assets meeting defined, asset health aligned,, characteristics	15.2

Our proposed PCDs align with Ofwat's cost change guidance and provide an appropriate balance between delivery assurance and proportionate customer protection.

For clarity, we have assumed that Ofwat will apply the same end-of-period non-delivery flexibility as set out in Ofwat's PCD Guidance. If this assumption does not hold, we would welcome early discussion on the rationale and implications for our proposed PCD framework.

19 Total AMP8 scheme cost including existing allowance for Flag Fen
20 Includes estimate of what base buys

Further detail on individual PCD definitions, metrics and design rationale is provided in the individual documents supporting each of our cost change proposals (ANH-CC26-02 to ANHCC26 - 05 and ANH-CC26-17 PCD Technical Annex

9 Assessing investability and financeability

9.1 Investability

The IWC report recognised the importance of ensuring the sector is investable. It signalled the need for a renewed focus on ensuring the sector can access the capital required to deliver long-term environmental and resilience outcomes. A core implication of this direction is that in the shorter term, Ofwat and the longer term the new integrated regulator will need to take steps that improve the investability and credit quality of the sector, particularly where investment requirements are accelerating and the need for new equity is expanding.

If the sector is to deliver the scale of investment implied by companies' Long-Term Delivery Strategies (LTDS), which amounts to c.£250bn over the next 25 years, the regulatory framework must both reinforce the financial resilience and creditworthiness of companies and also ensure the ongoing attractiveness of the sector.

On a notional gearing basis this additional investment will require c.£112bn of new equity coming into the sector meaning investors are likely to experience a prolonged period of negative cash flows, where new equity injected is greater than any dividends received. In this context it is crucial that the timing of revenue recovery treats all investment consistently to maintain investor confidence in the sector's long-term stability.

This is consistent with the approach set out in Moody's credit methodology, which highlights that a stable and investable regime is one in which the "tariff formula [should] allow for timely recovery of operating expenditure including depreciation and a fair return on all investment". Ensuring that allowed revenues track efficient expenditure profiles is necessary to help stabilize credit factors in an environment where companies face materially higher equity requirements over the next 25 years.

Other UK regulators have already strengthened the timeliness of cost recovery. Ofgem's in-period revenue and RCV adjustment mechanisms for the RIIO price controls are cited by investors and ratings agencies as a factor supporting a more positive assessment of the regulatory environment. Moving the water sector in a similar direction would be a strong signal that Ofwat recognizes the need for sustained, long-term capital flows into the sector.

Based on data gathered by Water UK, the sector will request around £5 billion of new investment in the 2026 submission window. Some companies have publicly signalled an intent to submit further substantial proposals in future windows. Given the scale of potential new investment across the sector, beginning the process of regulatory reform through the cost change process by aligning expenditure and revenue will be an important step in improving investor sentiment. Unless this shift is made, there is a material risk that investment required will be delayed or financed at a higher cost, to the detriment of customers.

In-period revenue and RCV adjustments for our cost change proposals are essential because:

- Investment will not be delivered without timely revenue recovery:
  - In the absence of in-period adjustments, the notional financeability test may be met, but the practical investability test will not. This reflects the scale of new equity highlighted by the sector LTDS' and the need for regulatory mechanisms to sustain investor confidence.
- Customer engagement clearly supports bill smoothing
  - Our engagement demonstrates that customers have a strong preference for gradual bill changes, rather than deferring recovery to AMP9 where the 'step up' bill impact would be sharper. This aligns with the emphasis in the White Paper and forthcoming Transition plan highlighting the need to avoid sudden bill shocks and keep bills manageable while enabling necessary investment. In a higher bill environment which we are already seeing in AMP8 and is expected to increase further in AMP9 any bill shock caused by deferral has a more significant impact on customers than in a historic lower bill environment.

Our proposed investments meet the relevant materiality thresholds. Both on asset health and on growth, the proposals meet the 2% materiality threshold required for in-period adjustments (see Table 3 below). Whilst

under current guidance, growth related cost change submissions are not eligible for in-period revenue adjustments in 2026, our proposal is contingent on our collective effort to resolve this, or - if this is not possible - the opportunity to apply a retrospective adjustment in 2027.

9.2 Financeability

9.2.1 Cost Change Materiality Assessment

Our 2026 Cost Change proposals pass the materiality threshold which Ofwat sets to determine eligibility for in-period revenue adjustments, set at 2% of appointed business turnover, as shown in table below[21].

Table 3 Materiality assessment (2022/23 FYA prices)

Category	£m
NPV asset health expenditure	209.685
NPV growth expenditure	133.758
Materiality threshold	28.734

The resulting RCV and revenue adjustments are shown in table below.

Table 4 Impact of cost change proposal on RCV adjustment and revenue adjustment (2022/23 FYA (CPIH deflated) prices)

Price Control	£m
Total RCV adjustment	**315.952**
Water Resources	7.459
Water Network Plus	167.083
Wastewater Network Plus	141.409
Total Revenue adjustment	**51.456**
Water Resources	0.977
Water Network Plus	20.252
Wastewater Network Plus	30.227

9.2.2 Assessment of Credit Metrics

Figures 3 and 4 below present the results of the financeability assessment on the notional company using the PR24 Financial model. Key metrics assessed include the FFO/Net Debt (both RR16.5 & RR16.6 ratios) and ACIR compared with the FD. Figure 2 represents the impact of this cost change proposal. However, we - and other companies in the sector -are actively considering additional cost change proposals in future years. Whilst it is too early to commit to how much additional investment we might propose in 2027 and 2028, figure 3 models a illustrative package which represents a total £900m of additional investment over AMP8.

21 Consistent with the approach taken at PR24, the NPV of each cost change category is calculated based on total AMP8 capex plus 15 years of opex.

Figure 3 Impact of 2026 cost change proposal on selected credit metrics

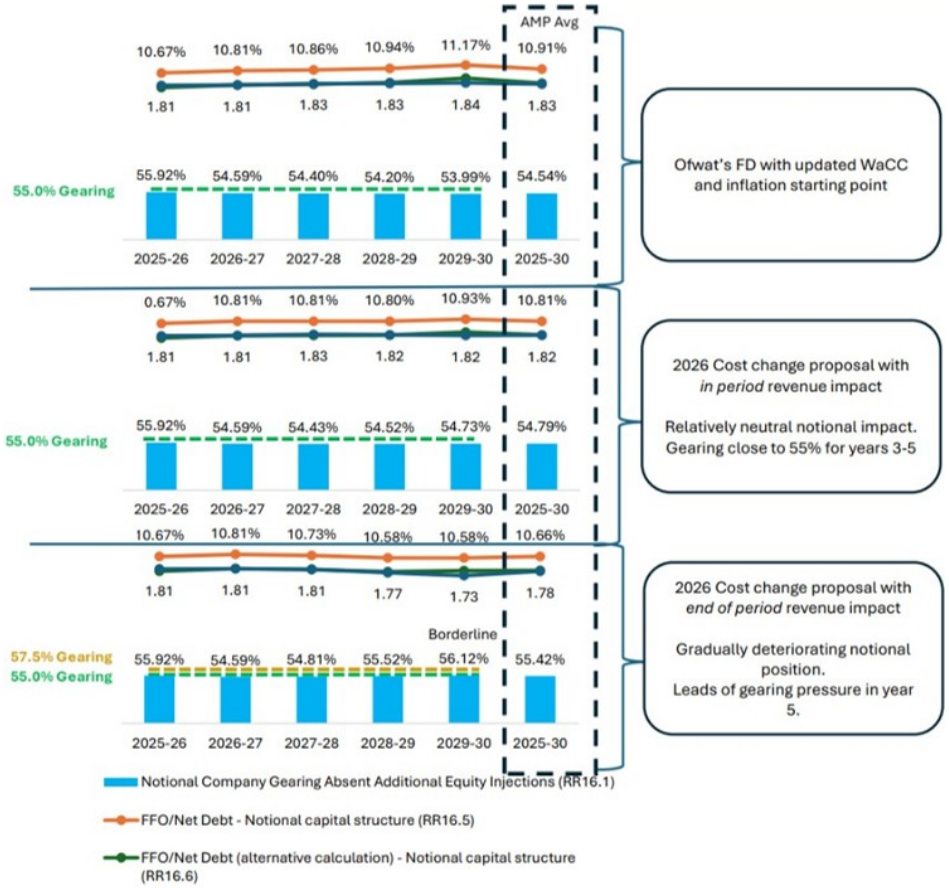


Figure 4 Impact of 2026, 2027 and 2028 cost change submissions totalling £900m on selected credit metrics

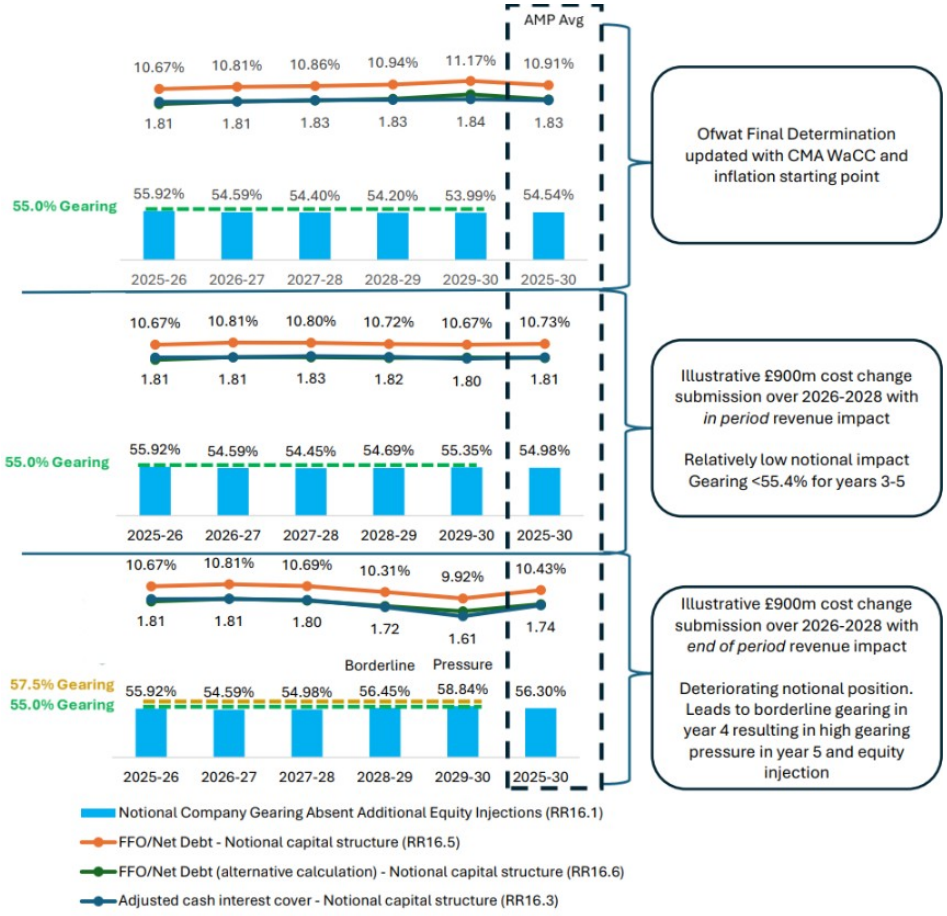


Figure 3 and 4 illustrate the beneficial impact of in-period revenue adjustments. Although figure 3 shows that the impact of our cost change proposal on key credit metrics is relatively small, it is nonetheless negative relative to the PR24 Final Determination. Without in-period revenue adjustments, notional gearing rises to 56.12% in 2029/30 and erodes much

of the financial headroom required to maintain financeability. With in-period revenue adjustments, notional gearing remains under 55% and headroom is maintained.

Figure 3 shows that for our illustrative package of £900m split over submissions in 2026, 2027 and 2028, notional gearing would rise to 58.84% in 2029/30 without in-period revenue adjustments, placing pressure on the notional company to raise additional equity. However, with in-period revenue adjustments, gearing rises to only 54.98% and additional financial headroom is maintained.

In the context of the long-term investment needs of the sector and the sustained equity inflows required to finance that, it is vitally important that Ofwat operates the cost change process in a way that signals an improvement in the investability of the regulatory regime. If the cost change process is to successfully encourage a step-change in investment on asset health and supporting economic growth, it will need to be attractive to equity investors. Our financeability analysis shows that without in-period revenue adjustments, additional equity inflows will be required purely to maintain financial headroom, over and above the very substantial inflows required to support RCV growth in future periods and thereby placing upwards pressure on the cost of capital.

Unless in-period revenue adjustments are recognised as the default stance for cost change proposals which pass Ofwat's materiality threshold, companies will be required to raise additional equity on worse terms relative to if the investment had been allowed at the PR24 final determinations. This will be unattractive to investors, the sector may be less ambitious with the value of investment brought forward through future cost change windows, and therefore the delivery of urgent asset health improvements and growth schemes will be delayed.

10 The Impact of our requests

10.1 Bill impact of our proposals

The impact of our cost change proposals is modest. Assuming in period adjustment is allowed, household customer bills, on average, will be £1.84 per day excluding inflation. This is an increase of 2p per day on the 2029-30 bill reflected in the final CMA redetermination.

The figure and table below set out the individual year bill impact across year 3-5 of AMP8.

Figure 5 Bill profile for household customer for years 2-5 of AMP8

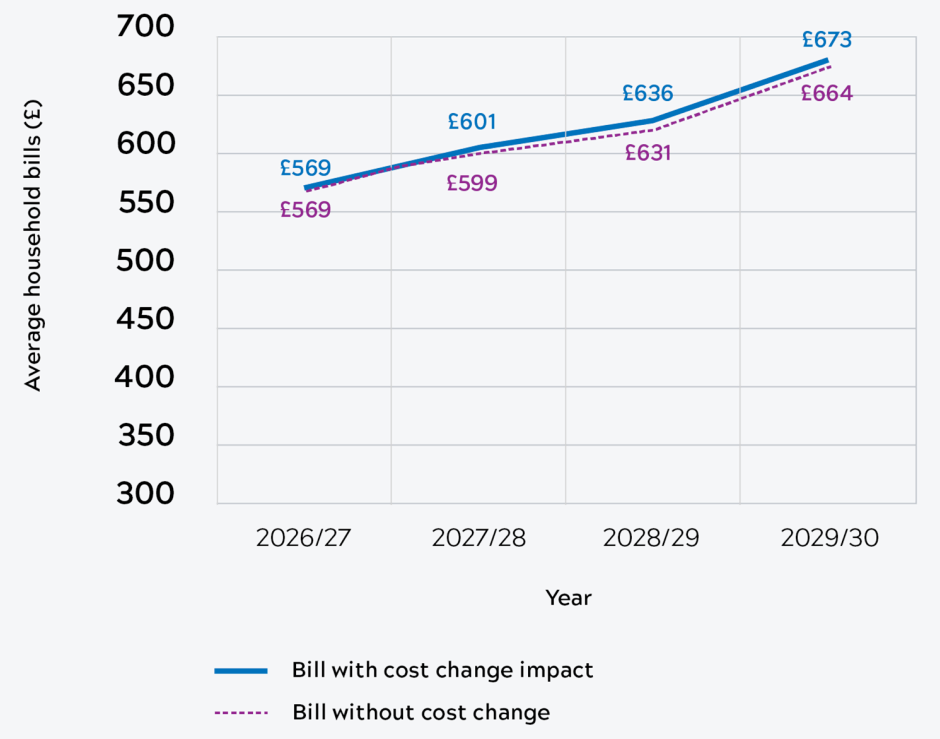


Table 5 Bill profile for AMP8 for average household combined bill including cost change proposals

Anglian Water	2026-27	2027-28	2028-29	2029-30
Average household bill[a]	569.08	600.80	635.96	672.68
Cost change impact per year £	*0*	*1.82*	*5.76*	*9.65*

a CMA redetermination bill profile plus Cost Change, 2022/23 price base

10.2 Keeping bills affordable whilst driving efficiency

10.2.1 Keeping bills affordable

We are very conscious of our responsibility to deliver a good, reliable service which offers value to our customers. We have a range of affordability support for customers, including: payment breaks, concessionary tariffs, forgiveness schemes and temporary instalment plans.

In 2025/26, we directly supported 398,585 customers. We awarded more than £580,000 from the Anglian Water Assistance Fund and matched more than £800,000 of payments made by customers through our Back on Track scheme. We also delivered more than £94 million in support for financially vulnerable customers and signposted more than 8,000 customers to additional benefit support after completing our Extra Care assessment.

Our customers have supported an extension to the scale of overall of support from the wider customer base to eligible customers. This means we can provide up to £142m for discounts under the LITE tariff, with additional protection available through WaterSure. Based on our analysis, we are confident that the despite the marginal increase in bills associated with these cost change proposals, expanded LITE cross subsidy of up to £142m will provide sufficient funding to support the volume of customers needing direct help.

Taken together, this demonstrates that our approach to affordability and fair recovery of charges across our customer base–combined with enhanced social tariff provision–provides appropriate protection for customers most at risk, while enabling the delivery of essential investment and improved long term resilience.

11 Governance and Assurance

11.1 Board and Executive oversight of our proposals

We are committed to maintaining the highest standards of corporate governance. The Anglian Water Board operates a well established and effective framework of policies and procedures covering corporate governance, internal control and risk management. The Board retains ultimate accountability for setting the Company's strategy and overseeing performance, including approval of the previous AMP8 Business Plan, Long Term Delivery Strategy (LTDS) and the governance processes underpinning these proposals.

The Board has provided the same level of engagement, scrutiny and governance to the development of our cost change proposals. The Board has shaped our proposals cognisant of the wider strategic context, ensuring that our proposals are embedded with a clear understanding of customer, environmental, financial and regulatory implications.

Our Executive Committee has been fully engaged throughout the development of the proposals, including setting the strategic intent, identifying the priority areas for proposal, ensuring alignment with business objectives, and agreeing the regulatory approach. Executive oversight has ensured that the proposals are coherent with our wider AMP8 delivery programme and reflect our capacity and capability to deliver at pace.

As with the development of our PR24 Plan, we established a dedicated Programme Board to oversee the development of the cost change proposals and any potential future proposals. The Programme Board, chaired by the Regulation Director, includes senior representation from Finance, Asset Management, Water and Water Recycling, and Capital Delivery. This governance structure has provided robust challenge, cross functional alignment and effective control over scope, cost, risks and dependencies.

Together, these governance arrangements provide confidence that the proposals have been developed with appropriate senior oversight, strong internal challenge, and clear accountability for delivery.

11.2 Our approach to internal and external assurance

We have undertaken independent technical and commercial assurance of our cost change proposals to provide confidence that the need, scope, costs and delivery arrangements are robust, efficient and aligned with Ofwat's guidance. Independent assurance has been provided by Jacobs under our established assurance framework and was conducted in accordance with ISAE (UK) 3000 (Revised), applying a risk based approach.

The assurance covered the 2026 proposals including:

- **Asset health**: storage points, gravity sewers and critical high-voltage power supply infrastructure; and
- **Growth**: Water Recycling Centre (WRC) capacity schemes.

11.2.1 Summary of assurance findings

Commercial assurance confirmed that our cost estimation and governance processes are structured, comprehensive and robust. The use of the Copperleaf investment system, supported by benchmarking, historical cost data and specialist inputs where required, provides confidence that costs are efficient and that only expenditure additional to PR24 allowances has been included. The proposed Price Control Deliverables were found to be appropriately defined and consistent with Ofwat requirements.

Technical assurance concluded that the proposals are underpinned by clear engineering need, structured option development and transparent prioritisation using Risk, Opportunity and Value (ROV) assessments. For storage points and gravity sewers, the approaches to asset condition assessment, option appraisal and cost development were found to be technically robust, with good data traceability between investment systems and Ofwat reporting tables. For critical power supply infrastructure, the assurer confirmed a clear rationale for a step change in investment.

For growth schemes, assurance confirmed that the investments are driven by evidenced growth requirements and are aligned to planning assumptions. While a small number of non-material findings were identified

relating to the maturity of optioneering and documentation, these do not affect the overall conclusion, and actions are in place to address them as schemes progress.

Overall, the independent assurance provides confidence that the proposals meet the relevant cost change assessment gates on need, value for customers and deliverability. No material misstatements or issues were identified through the assurance process, and any recommendations raised are non-material and are being actively addressed. The proposals therefore represent an appropriate and proportionate use of the cost change process to address priority asset health and growth pressures in AMP8.

Further detail is provided in:

- ANH-CC26-10 PR24 Cost Change - Technical Assurance Report (Jacobs); and
- ANH-CC26-11 PR24 Cost Change - Commercial Assurance Report (Jacobs).

12 Our Asks of Ofwat

12.1 The need for pragmatism in What base buys

12.1.1 Conceptual concerns with What Base Buys

Ofwat developed the concept of 'What Base Buys' to capture the principle that the base allowances derived from the econometric modelling suite include within them an allowance for capital maintenance. Where companies submitted a case for an uplift to base allowances to fund a higher level of activity, Ofwat employed the What Base Buys concept in order to seek to capture expenditure which could be legitimately considered already funded by customers in base allowances.

The principle of this concept is appropriate to protect customers. However, evidencing with any meaningful precision the level of activity implicitly funded in base allowances (and therefore evidencing the need for additional expenditure) is exceptionally challenging in practice. The precise difficulty is a direct function of the regulatory framework and information set used to derive allowances. As has been widely discussed, there are multiple potential methods for estimating the concept of What Base Buys which can return materially different (or even perverse) results. The differences between methods creates regulatory risk. But the more fundamental concern is that each of these methods relies on the flawed assumption that trends in historical expenditure will continue in future periods, when in practice capital maintenance expenditure has been insufficient to fund sustainable long-term asset renewal rates. The sector highlighted at both PR19 and PR24 that such was the scale of imprecision and overestimation of What Base Buys, that companies were not sufficiently funded to deliver various aspects of their plan, including their underlying capital maintenance needs.

Given that the industry has overspent the total base expenditure allowance for multiple AMPs whilst proactive replacement rates have been falling, the risk that customers would in practice be paying twice for additional capital maintenance activity has been significantly overstated. The greater damage has been that of not funding adequate asset health improvements, a point raised by several companies (including Anglian) at previous price reviews and echoed by the Independent Water Commission (IWC), the National Audit Office (NAO), and the National Infrastructure Commission.

There is another, principled flaw in the What Base Buys approach: the concept of Base "buying" the maintenance of a particular asset works counter to the underlying philosophy behind the 'totex' regime. Fundamentally, the totex regime was intended to promote efficiency by allowing companies to allocate base costs based on individual company needs, subject to both the company's risk appetite and the availability of the (aggregate) allowance to fund the required outcomes. Specifying spend on a particular asset class or group of asset classes, whether or not deemed to be "priority", runs counter to the economic rationale behind the totex regime.

12.1.2 Practical concerns with What Base Buys

There are practical flaws to various methods of estimating What Base Buys:

- First, Ofwat's standard approach to computing implicit allowances for base costs has been econometric. The implicit allowance for a particular asset has been calculated as the difference between its models, as used to set base allowances, and a version of the models with the costs associated with the asset class removed. Rerunning the models excluding those costs change the coefficients of the cost drivers and as a result the assessed value.

  This approach is inherently 'industry average' based. The models are derived using panel data from 17 companies for water and 11 companies for wastewater. As each company is unique, no company matches the blended outcome of all industry participants: so the resulting WBB does not - cannot- match the requirements of any particular company. A case in point was that Southern Water's cost adjustment claim for additional costs associated with coastal wastewater plants would have given Thames Water an allowance, despite Thames Water having no coastline to its appointed area.

- Second, the econometric approach can lead to perverse outcomes where the associated costs removed are small. For example, historic spend on rapid gravity filters, water towers and contact tanks are each less than 1% of base costs over the last decade. Excluding each asset type individually leads to negative implicit allowances, which is clearly nonsensical.

  It is possible to overcome the second issue by aggregating all classes of Priority Assets together such that the cumulative costs are material, but this does not address the first practical flaw.

- Third, approaches based on historical or planned investment decisions could penalise companies who have made prudent investment decisions. For example, a company that has historically spent a relatively high amount maintaining a particular asset class should not necessarily receive a large adjustment for What Base Buys, as this may underfund its true maintenance needs in AMP8 with potential consequences for maintenance of other asset classes. It also relies on the simplifying assumption that the industry takes a broadly consistent approach to the allocation of capital maintenance expenditure across different categories of asset and activity. Looking at the variability and inconsistency across companies in the Workload and Expenditure dataset, we suspect that companies have taken very different approaches to completing their returns.

In summary, there is no 'right' method of estimating What Base Buys and the results across the various methods that are available need to be interpreted in the wider context of historical underfunding of capital maintenance.

12.1.3 Our approach to WBB for purposes of this proposal

Despite the wider concerns on What Base Buys, Ofwat has mandated an estimation of What Base Buys as a necessary condition for additional investment proposal.

Since there is no universally accepted or single most robust approach to estimating What Base Buys, it is likely that companies will propose different methodologies depending on the asset classes included in their proposal and their own particular history of expenditure and delivery. We accept that there will need to be an element of judgement and discretion applied in the assessment of What Base Buys and would support the broad principle that different methodologies (or different blends of methodology) might be appropriate in different circumstances, subject to the requirement of transparency of justification.

In this proposal, we have adopted a triangulated approach to What Base Buys between two methodologies:

- Econometric approach: we re-calculate base allowances using Ofwat's PR24 Final Determination base cost models after removing historic expenditure relating to the relevant priority assets, following the outline method outlined above. We use the historic period 2015/16 to 2023/24 to maximise the overlap between the historic base cost inputs used at PR24 and the Workload and Expenditure dataset used to identify expenditure on priority assets. To improve the robustness of our results, we aggregated service reservoirs, water towers, contact tanks and final water tanks into a 'water network storage points' category, recognising that expenditure might be more substitutable between these assets.
- Historical average expenditure approaches: we calculate the average expenditure on each asset class per year. We calculate various results for this method including: Anglian Water's mean and median average expenditure per year over a 9-year period (to align with the base cost models) and a 10-year period (to maximise the use of the Workload and Expenditure dataset); we also calculate the total industry mean and median average expenditure per year over the same period, which we then scale to our share of industry activity using a treated water distribution input variable (for water assets) or length of gravity sewers (for wastewater assets). Both scale variables are available in company APR returns. We then take a simple average across each of the mean and median estimates.

The results for the asset classes included in our Cost Change proposals are shown in table below.

Table 6 Estimates of What Base Buys for selected priority assets, AMP8 total (£m, 2022/23 prices)

	(1) Econometric	(2) Historical expenditure - Mean	(3) Historical expenditure - median	Average of (1), (2) and (3)
Storage points	41.7	45.9	37.3	41.6
Gravity sewers	200.0	216.8	206.3	207.7
Power supplies[22]	N/A	2.0	N/A	2.0

Within columns (2) and (3), there are a wide range of estimates of What Base Buys. Taking storage points as an example, estimates of the mean average range from £40m to £61m, depending on whether the analysis is conducted on refurbishment and replacement activities or total costs, and estimates of the median average range from £22m to £44m. In our view, the ranges that can be calculated are so wide, that it demonstrates the highly imprecise and somewhat arbitrary nature of What Base Buys as a concept.

Whilst our estimates for storage points and gravity sewers represent relatively material amounts, applying the same approach to smaller asset classes such as rapid gravity filters or trickle filters results in estimates which are both small and uncertain. In that context, a pragmatic assessment of What Base Buys for some priority assets might essentially be zero.

Recognising that neither of these approaches produces robust estimates, and noting the conceptual flaws in any approach to estimating What Base Buys, we calculate the average of the three approaches shown in the table above. In our view, this is a relatively pragmatic interpretation of What Base Buys. Whilst there are other methods which could be explored, we consider that there is little value to be gained from increasingly sophisticated analytical decisions to minimise the risk of customers paying twice to a spurious degree of precision, compared to the urgent need to incentivise investment in asset health.

12.1.4 Our ask of Ofwat on What base buys

The purpose of the Cost Change process is to enable essential investment, not to increase the risk to the funding of capital maintenance interventions. It is essential that Ofwat applies a proportionate and pragmatic approach when reviewing company assessments. It should recognise that there is no single methodology which provides a uniquely precise or appropriate answer. It must also acknowledge the wider implications for the overall balance of risk to the delivery of additional investment supported by this Cost Change process.

12.2 Ensuring investability - the need for in-period adjustments

Given the scale of the long-term investment needs of the sector and the sustained equity inflows required to finance that, it is imperative Ofwat's implementation of the Cost Change process demonstrates a commitment to improving the overall investability of the regulatory regime.

The Cost Change process is the first and most visible opportunity to demonstrate how the regulatory regime will support the step-change in investment on areas such as asset health and supporting economic growth. To do this successfully, Ofwat will need to demonstrate this additional, necessary investment is attractive to equity investors. Our financeability analysis shows that without in-period revenue adjustments, additional equity inflows will be required purely to maintain financial headroom, over and above the very substantial inflows required to support RCV growth in future periods. Therefore, Ofwat should adopt the policy position of other UK regulators (principally Ofgem[23]) where additional cost allowances formalised through reopener mechanisms feed directly into in-period revenue adjustments, to avoid placing upwards pressure on the cost of capital and exacerbating further bill pressures unnecessarily.

Absent of in-period revenue adjustments through the Cost Change proposals companies will be required to raise additional equity on worse terms relative to if the investment had been allowed at the PR24 final

22 For power supplies, we can only calculate our average annual expenditure over the period 2015/16 to 2024/25.
23 For example, the RIIO-2 Electricity Transmission Price Control RIGs set out that costs incurred through a reopener mechanism are treated the same as other forms of Totex in the calculation of in-period revenue and RAV adjustments. See Section 2 of the RIGs available at Ofgem.

determinations. This will be unattractive to investors, and therefore the sector may be less ambitious with the value of investment brought forward through future cost change windows.

There also remains ambiguity on the RCV treatment of additional investment which is approved via the Cost Change process. Without adjustments being reflected in the actual RCV in period, it is uncertain whether the credit ratings agencies will have sufficient clarity on the underlying value of the RCV and this may have a negative impact on their assessment of gearing and other credit metrics. In turn, this would undermine the investability of a major capital programme, limit access to finance at a critical time for the sector and delay delivery. We encourage Ofwat to confirm how Cost Change allowances will be incorporated into the RCV as soon as possible, as this would materially reinforce investor confidence and support sector wide financial resilience during a period of unprecedented investment.

12.3 Supervision and reflecting regional differences

The Cost Change process provides the first and most visible opportunity to implement the reforms proposed by the Independent Water Commission and accepted by government in the White Paper. In particular, it provides an important window for Ofwat to adopt a more supervisory approach to regulation - the direction of travel now firmly established in the White Paper and forthcoming Transition Plan.

A core principle of the supervisory model outlined by the IWC is a more company-specific approach to regulation. Since PR14, the regulatory framework placed too much weight on industry-wide benchmarking and there was too little emphasis on understanding the specific circumstances of each company. Regulation was perceived to have become reactive. But through closer engagement with individual companies, supervision should enable risks to be identified earlier and support intervention before failures occur.

We prepared our Cost Change proposals with this supervisory approach in mind. We have explained why we have prioritised certain areas of investment, reflecting the specific challenges in our region and the forward-looking asset risks we manage. Where Ofwat requires additional evidence and assurance that our proposals represent the right course of action for our customers and the environment, we would of course welcome the opportunity for further engagement. We are confident that this process will ultimately strengthen Ofwat's confidence in our plans, processes and culture of asset stewardship. Whilst there will be differences in priorities and approaches to managing risk across companies, a more supervisory approach should strengthen Ofwat's discretion to make more holistic, company-specific decisions which promote investment for the longer-term health of Anglian Water's assets and the economic prosperity of our region.

A more supervisory approach is also about finding the right balance between holding companies to account for delivery, and the earned autonomy which comes from demonstrated maturity of processes and an established track record of delivery. The successful delivery of our AMP7 investment programme highlights our credibility in this space.

We have also made a very strong start to the larger AMP8 programme of work in 2025/26: capital expenditure was over £1.1 billion and in line with our Year 1 allowance; we released over 1,000 capital delivery schemes to our delivery teams; and (subject to the findings of our independent assurance provider) we expect to report a time incentive reward for Year 1 due to our overachievement against Year 1 targets for mains renewal, metering and P-removal. The completion of Year 1 ahead of several programme targets is an important milestone and reflects the substantial preparation and investment in building our capacity for AMP8.

Our progress over the past 12 months demonstrates the credibility of our plan and the maturity of our organisation to manage the programme through implementation. Building on Year 1 performance, we are exploring opportunities to further accelerate expenditure from Years 3, 4 and 5 into Year 2, demonstrating our ability to flex the programme responsibly to respond to emerging priorities while maintaining overall control. Our ability to accelerate the programme should provide our customers, regulators and other stakeholders with the confidence in the delivery of our AMP8 programme and these Cost Change proposals.

If we can collectively demonstrate a more supervisory approach in practice - and deliver tangible outcomes - then the Cost Change process will start the process of restoring confidence in the regulatory framework amongst

consumers, investors and government stakeholders, and will ultimately better support the planning and delivery of essential, long-term infrastructure which is urgently needed across England and Wales.

13 Next steps

We would be happy to provide Ofwat with any further information that it reasonably requires to assess our proposals and form a view on the key policy issues that we highlight. In the context of the ongoing reset of Ofwat's approach to engaging with companies after the Independent Water Commission, we would welcome regular, substantive engagement ahead of Ofwat publishing its draft determination.

The Cost Change process is a critical first step in addressing the issues identified by the Independent Water Commission and implementing some of its key recommendations. Government has given regulators a mandate to start reform and it is critical to restoring investor confidence in the regulatory framework that progress on reform is visible in the near term. These important policy decisions now sit with Ofwat and will ultimately have a bearing on the transition to a longer term, reformed framework.

For the avoidance of doubt, the investors in Anglian Water Services are clear that at this proposal stage of the cost change process, the commitment to the necessary funding to underline these proposals is not secured. This ultimate commitment will be subject to the overall shape of Ofwat's response to our proposals.

In the event that Ofwat's draft and final decisions create an unacceptable investment proposition, we reserve the right to withdraw our proposals and revert to focus our delivery solely on the PR24 package as recently redefined by the CMA.

love every drop
anglianwater

Anglian Water Services Limited
Lancaster House
Lancaster Way
Ermine Business Park
Huntingdon
Cambridgeshire
PE29 6XU

anglianwater.co.uk