

Jonson Cox CBE
Chairman
Ofwat
By email

Severn Trent Water Ltd
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Dear Jonson

Severn Trent: Final Determination


Since its publication in December, the Severn Trent Water Ltd Board has been very carefully considering Ofwat's Final Determination. Having now concluded these discussions, I wanted to update you that the Board has decided not to request a referral to the Competition and Markets Authority.

The Board's decision followed intensive, and often challenging, discussions of the implications of the Final Determination for our customers, our people, the environment and those who invest in us. The Board is very cognisant that this is the most stretching price review outcome in recent history – with a 2.96% WACC, 1.1% productivity challenge and extremely stretching service improvements, all the main parameters are more ambitious relative to other determinations. And as a fast track company we were of course forthcoming at putting forward an ambitious plan that nevertheless has been subject to a great deal of challenge.

Ofwat has described the next AMP as being transformative for our industry – 16% leakage reduction targets typify this – and it is an ambition that we have embraced. In your investor call of 16 December 2019, you urged investors to look at determinations as a package. This is how our Board too has considered the Final Determination – whether it is a challenge that we can accept in-the-round. Within this package we have accepted that we are taking on varying degrees of risk and challenge, which will manifest themselves at different times over the AMP. For example, within the design of Performance Commitments (PCs), Ofwat has embedded the principle that only the top 25% of companies are expected to pass the bar, recognising that even companies that meet a good number of the PC targets are not likely to meet them all every year.

That said, our overarching desire now is to place our full focus on delivery, and as Ofwat turns to implementing its strategy, we look forward to continuing to work with you in a constructive way in the future.

Yours sincerely



Andrew Duff
Chair