

Yorkshire Water PR24 Cost Change Submission, Asset Health 2026, Executive Summary

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1. Summary of what we're applying for and why, and how we support our application

Yorkshire Water welcomes Ofwat's ongoing and proactive engagement with the sector to improve the health and long-term resilience of assets so water companies can better future-proof reliable provision of vital water services to customers.

In line with Ofwat's 2026 asset health cost change process, we therefore submit an application for **£39.3 million** of additional investment for the refurbishment/replacement in AMP8 of **two** strategically identified priority asset types, outlined below, which currently present material risks to service failure and non-compliance and that could not otherwise be mitigated within PR24 base allowances:

- **Seven borehole sites**, identified for refurbishment or replacement to address asset health and resilience risks, strengthening water supply resilience following the 2025 drought (**£13.69 million**)
- **Trickle filters at six wastewater treatment works** for refurbishment or replacement to improve asset health and mitigate increasing risks of treatment failure and permit non-compliance (**£25.61 million**)

Our request is targeted, proportionate and fully evidenced-based, supported by:

- Structured assessments of asset/s condition
- Realistic deliverability assessments
- Clear alignment with Ofwat methodology
- Independent modelling to assess implicit allowance
- Assessment of the materiality for in-period adjustment
- Demonstrable commitment to deliverability
- Customer research with nearly 1,600 customers who demonstrated support for targeted asset health investment

Beyond this application, we are committed to working with Ofwat to develop sectoral understanding of investment need and identification of priority assets, post-2026. Looking to 2027, 2028 and PR29, we're proactively engaged not only in this asset health process, but whole industry learning so that collectively we can best serve our respective communities with the resilient, safe water supply and treatment services they need. For 2027 and 2028, we continue to review our requirements and evidence base and are actively considering further applications to the cost change process for other priority asset groups, including gravity sewers, for which we are seeking market costs for survey work ahead of next year's submission window, thereby giving greater cost confidence in our regulatory submission. We also continue to assess our regional needs to support growth.

2. Our rationale and approach for identifying priority assets

We carried out a risk-based, value-led assessment across our asset base that led us to **not** submit a 2026 application for gravity sewers, service reservoirs, rapid gravity filters, settlement tanks and activated sludge tanks.

Our 2026 submission reflects a combination of strategic, delivery and assurance considerations such that it includes assets that could be:

a) Clearly evidenced with mature information as having investment need

Asset health data, deterioration models and long-term intervention strategies for the remaining asset groups require additional evidence to meet the investment need for additional expenditure. Work is therefore planned to analyse and develop strong evidence ahead of future submission windows.

b) Confidently planned for delivery within relevant timescales

Scale, complexity, and delivery profiles of the asset groups contribute to a risk that a 2026 investment could be fully mobilised and delivered before 2030. Particularly where extensive planning consent, land purchase or integration with live operational assets is involved.

c) Not present material risks to delivery of the existing AMP8 programme

Increased scope in these particular asset groups would increase pressure on constrained delivery resources, such as supply chain capacity, operational teams and capital governance processes. Material risk then arises for delivery of committed AMP8 schemes, which remain our primary focus.

Asset groups not selected will continue to be actively managed and monitored through AMP8 and delivery risks assessed through year 2 of AMP8, to support reconsideration for the 2027 and 2028 submission windows as supporting strategies mature and delivery capacity allows.

3. Our assessment of implicit allowance

Our assessment is supported by independent modelling from Oxera and demonstrates that our proposed £39.3 million asset health investment clearly exceeds the historic implicit allowance within PR24, representing a genuinely incremental and fully justified funding need under Ofwat's cost change criteria.

3.1 No definitive answer to 'what base buys'

While we recognise Ofwat's approach only permits cost change claims where companies can demonstrate that forecast expenditure will exceed the historic implicit allowance, and notwithstanding that some implicit funding is likely present, we don't believe there is a definitive answer for 'what base buys' for asset groups. This is due to the top-down approach to Totex cost modelling at PR24, variations between companies, and the quality and maturity of data.

3.2 Independent modelling and assessment

To support an objective assessment, Yorkshire Water commissioned Oxera, a reputable, independent economic consultancy, to review historic data and estimate the implicit allowance within Ofwat's PR24 final determination for a company of our scale. It applied a range of established methodologies to ensure consistency with best practice and Ofwat's asset health cost change guidance, providing an evidence-based view of historic implicit funding relevant to the asset groups in scope.

3.3 Requested investment is beyond implicit allowance

We compared Oxera's findings with our latest bottom-up AMP8 base expenditure forecasts, which confirms that our business plan already assumes expenditure at or above the level of any reasonable implicit allowance identified for these asset groups. And, that the additional investment we are applying for of £39.3 million (£13.69 million for boreholes and £25.61 million for trickle filters) represents expenditure beyond the embedded implicit allowance, derived from historic data.

As such, our cost change application reflects a genuine additional funding need, not a reclassification of base expenditure, and is fully in alignment with Ofwat's criteria, supported by clear, evidence-based assurance.

4. Assessment of the materiality for in-period adjustment

Although our cost change submission meets the in-period adjustment criteria, the company is seeking an end-of-period reconciliation for 2026. This decision has been taken after careful consideration of views sought from customers and through considering the views of the Independent Yorkshire Forum for Water Customers ('The Forum'). While the 2026 cost change submission is expected to have only a limited impact on customer bills, we recognise the Forum's concerns. Ahead of future submissions with a material bill impact, we will ensure broader and earlier customer engagement to inform the investment decisions being proposed.

Had we chosen to pursue an in-period adjustment this claim would be considered material as per Ofwat's guidance as it exceeds 2% of company turnover. For Yorkshire Water, this threshold equates to £29 million. The proposed investment of £39.3 million therefore clearly exceeds the threshold (by £10.3 million or 40%). This also demonstrates that our proposal meets the definition of a significant cost pressure, rather than marginal or routine expenditure fluctuation.

Despite our 2026 position, our view is that to support an appropriate risk allocation between companies and customers, the *default* position for reconciliation should be in-period as opposed to end-of-period and that this should include an adjustment to the regulatory capital value. In-period reconciliation ensures customers pay closer to the time benefits and costs are incurred, which is more consistent with economic efficiency principles embedded in Ofwat's framework.

We may consider requesting any approved 2026 cost change allowance in a future (2027 or 2028) in-period adjustment claim if we consider this is the best outcome for customers and the company at that time.

5. Commitment to deliverability

In order to protect customers from non-delivery, our submission includes Price Control Deliverables (PCDs) for both the implicit allowance and requested uplift to base.

We have also elected, during the Ofwat decision-making period, to progress the proposed investment through the delivery process. To ensure delivery-critical items, for example planning permission, and securing drilling rigs (where national stock limitations exist), do not become a limiting factor for delivering in the AMP8 period. Should the decision for each asset group be unfavourable at the December 2026 final decision point, the schemes would be progressed to full delivery as part of the AMP9 plan.

6. Structure of our application

Our 2026 asset health submission contains additional documentation, one each in relation to the technical submissions for the two stated asset groups, with supporting information contained in appendices that demonstrate our compliance with Ofwat's information requirements.

We believe our submission meets all stated requirements for cost change applications and look forward to our continued dialogue through the Asset Health process.

7. Board approval

As part of our assurance framework, we confirm that the Yorkshire Water Board has been provided with full and transparent visibility of the proposed investment requirements. The Board considered this information and provided formal approval for submission to Ofwat on 19 March 2026.