



The voice for water consumers
Llais defnyddwyr dŵr

CCW's response to Ofwat's 2025-30 Draft Price Determination for Southern Water

28 August 2024

1. Introduction

The Consumer Council for Water (CCW) is the statutory consumer organisation representing household and non-household water and sewerage consumers in England and Wales. We welcome the opportunity to respond to Ofwat's Draft Determination for Southern Water.

Executive Summary

Overall view

Customers of Southern Water have for too long been on the receiving end of poor performance, as shown across Ofwat's range of performance commitments¹ during this price review period, and the high level of customer complaints the company has historically received².

In this context, we support Ofwat's cautious approach through the delivery mechanism to only allow full funding of investment and service improvements where deliverability is assured, alongside close monitoring of the company's financial resilience.

Southern Water's business plan has been graded as Inadequate by Ofwat, and the company will incur a financial penalty if it cannot improve its Plan to Ofwat's satisfaction before Final Determinations³. In making its Draft Determination Ofwat has challenged the company to make more stretching improvements than it proposed and made efficiency savings on the costs requested that have reduced the impact on customers' bills.

It is particularly disappointing to note that Ofwat considers the company Board failed to meet its minimum expectations for assurance of the plan. In the present climate of low levels of public trust and poor performance, we would expect the Board to be properly engaged and to demonstrate this⁴.

Ofwat's concerns about the plan and its challenge to the company to provide more evidence in support of its original submission suggests a degree of uncertainty about changes that could still be made in the Final Determinations.

¹ See [Ofwat's Service Delivery Report for 2022-23](#), which shows Southern are comparatively poor against 11 of the 12 service performance levels used in the report.

² [CCW's household customer complaints report for 2023](#) shows Southern as a standout poor performer.

³ Page 15: [Overview-of-Southern-Waters-PR24-draft-determinations.pdf \(ofwat.gov.uk\)](#)

⁴ Page 4: [PR24-draft-determinations-Southern-Water-Quality-and-ambition-assessment-appendix.pdf \(ofwat.gov.uk\)](#)

The Draft Determination raises the level of ambition to deliver the outcomes customers want and sets the company challenging efficiency targets by reducing the costs it can recover from customers. We are assured that due to Ofwat's efficiency challenges customers will not pay more than is necessary for the service they receive and are not charged twice for work which should have already been delivered.

The effect of Ofwat's challenge is to reduce the headline increase in average bill over the price control period from £727 (business plan) to £603. While CCW welcomes this reduction, Sothorn's customers will still see the largest water and wastewater bill increase in England and Wales - at £183⁵ on average (before inflation) over the price control period. This will present affordability issues for some customers.

CCW shares Ofwat's concerns about the deliverability of Southern Water's plan⁶, especially given the company's historic performance. While Ofwat rejected the company's proposal to phase delivery of some aspects of the Water Industry Environmental Programme (WINEP) over eight years rather than five, Ofwat has agreed to Southern Water's proposed delivery mechanism⁶. This will see some financing withheld and made subject to the company's successful delivery during the price control period, through annual determinations. We support this approach and see the value of it, while acknowledging it does introduce uncertainty about the final level of bills later in the period.

We recognise that in order to improve service performance for customers and the environment, the draft determination has to balance delivering for customers and the environment efficiently whilst securing the capital investment that is required to make this happen.

Where customers need to pay more to invest in service or environmental improvements, it is vital that customers see Southern Water deliver the commitments in its price determination. Southern Water must also demonstrate to customers that the outcomes they see are tangibly better than now in terms of service performance and environmental improvements.

Customer trust in the sector has declined in CCW's annual Water Matters surveys⁷, and Ofwat's recent research⁸ has found that only 38% trust their water company to provide them with good value

⁵ Page 3: [Overview-of-Southern-Waters-PR24-draft-determinations.pdf \(ofwat.gov.uk\)](#)

⁶ Page 5: [Overview-of-Southern-Waters-PR24-draft-determinations.pdf \(ofwat.gov.uk\)](#)

⁷ [Water Matters 2024 - CCW](#) shows significant shifts across nearly every metric that we use to measure people's views. In many cases, these were the lowest scores recorded in the thirteen years of Water Matters.

⁸ [Wave Five of Ofwat's Cost of Living research](#) (undertaken in March)

for money. Additionally, joint research between CCW and Ofwat shows that less than a quarter (23%) of people trust their water company to do what's right for the environment⁹.

The outputs of PR24 must be a strong lever for Southern Water to address these worrying trends. We want all companies to demonstrate a culture of transparency and regularly update customers on their progress against this in order to improve customer satisfaction and trust.

We are disappointed that it has not been possible to understand how customer preferences have been considered in Ofwat's decisions. Although the overview documents are an improvement on previous years, they should be improved further so that customers can see the targets companies should meet each year compared to current performance, and the expenditure they have been allowed to deliver these improvements.

CCW recognises that Ofwat grades water companies' business plans to incentivise them to deliver strong evidence and propose efficient costs. CCW believes companies already have enough incentives through actual delivery of their plans. We want to see business plans assessed so that companies are penalised for poorly evidenced plans rather than rewarded for the basic company responsibility to write a decent business plan. Although Ofwat has measures to claw back money if plans are not delivered, CCW does not believe there should be a financial reward taken out of bill payers' pockets for merely writing a robust business plan.

What we support and why

- Ofwat's challenge to the company's proposed costs, as customers should be assured that allowed expenditure is efficient and any poorly evidenced investment is challenged.
- Ofwat's proposal to set assumed energy costs at a baseline reflecting the Government's industrial use index, and 'true up' at PR29 if companies' actual costs are lower or higher. This protects customers from the risk of paying too much 'up front'.
- The reduction of notional gearing to 55%¹⁰ as higher leveraged capital structures have risks for customers.
- The move to encourage more companies to have an equity listing¹¹, as it allows for greater transparency and governance in the company's financial structure.

⁹ [Customer Spotlight: People's views and experiences of water 2024 - CCW](#)

¹⁰ Page 7: [PR24-draft-determinations-Aligning-Risk-and-Return-Allowed-Return-Appendix.pdf \(ofwat.gov.uk\)](#)

¹¹ In the same way that FTSE index companies have listed equity

- The introduction of BR-MeX to incentive better customer service for business customers.
- The use of Price Control Deliverables and other protections in place to remunerate customers in the event of failure or delay in delivering.
- The absolute zero target for the serious pollution incidents PC and the proposed introduction of a new measure for serious water supply interruptions.
- We are pleased to see the increase in ambition the Draft Determination places on Southern Water. This will mean greater improvements are made in the areas customers see as priorities, particularly in protecting the environment and improving the reliability of supply.
- We consider the introduction of a delivery mechanism sensible as this will help mitigate some of the uncertainty of the deliverability of the plan, but recognise this comes with added uncertainty about bill levels.

What we have concerns with and want to see in the Final Determination

- The Draft Determination is unclear on the consequence of not lifting all customers out of water poverty by 2030. Affordability is a key priority for the industry. In its final determination, Ofwat should ensure that Southern Water (and the industry) aims to meet the Water UK commitment to make bills affordable as a minimum for all households with water and sewerage bills more than 5% of their disposable income by 2030 and develop a strategy to end water poverty¹².
- Bill rises will increase the number of customers struggling to pay. Whilst the Business Plan and the Draft Determination allow for an increase in financial support, we would like Ofwat to push the company to invest profits into supporting the social tariff, not just shareholder contributions to the hardship fund.
- We fully support the concept of C-MeX. However, we are disappointed that, after extensive engagement with Ofwat, an additional metric to measure customer complaint volumes is not part of

¹² [Water industry reaffirms pledge to work in the public interest | Water UK](#)

the range of C-MeX components. This is a missed opportunity to incentivise a reduction in customer complaints.

We do support the inclusion of the other measures of customer experience in C-MeX. This includes the increased weighting on customer contact surveys and use of cross sector comparators.

- We are disappointed that Ofwat has withdrawn the Gearing Outperformance Sharing Mechanism in its Draft Determinations and would like to see it reinstated. The principle of this mechanism should act as an extra safeguard against financial windfalls and an added incentive to reduce high risk gearing.
- In the absence of a performance commitment to track the harm caused by storm overflow spills, we want to see a clear plan from the company which demonstrates its delivery of the storm overflow reduction programme prioritises the spills that cause most frequent harm to rivers and bathing water.
- We wish to see further detail on how the smart metering programme will help reduce household and business demand, and the expectations this investment implies for leakage reduction and tariff development.
- Proposed enhanced Outcome Delivery Incentive (ODI) rates, which could see customers paying more for areas of service they may view as a company's basic responsibility.
- The Draft Determination sets ambitious and stretching targets for Southern Water and makes some significant cost reductions against its business plan. We do have concerns about deliverability in light of these challenges and the company's performance through the current price control period.
- The proposed bill profile will see a large spike (22% increase) in 2025-26, with the average dual service bill rising from £420 to £512. Southern Water's own research shows customers prefer smooth bill profiles¹³ through a price review period and are unlikely to welcome such a large increase in the first year of the price control period, particularly in the current economic climate. We would like to see the profiling of the bill rises reviewed for the Final Determination to ensure that any spike in year one is justified and minimised so far as is possible.

¹³ Page 168: [srn08-affordability.pdf \(southernwater.co.uk\)](#)

- We are concerned about the level of affordability assistance proposed, particularly in the face of substantial bill increases. Increasing the reach of its Social Tariff from 6% to 8%¹⁴ of the customer base will fall short of the potential proportion of customers who will need help and would qualify for it under the company's scheme criteria.
- The proposed delivery mechanism adds uncertainty to the final level of bills. The potential for higher-than-anticipated bills in the final years of the price control period must be made clear in the Final Determinations. This will help manage customers' expectations and provide confidence in the regulatory oversight of the company.

2. Our detailed comments

Customer acceptability and affordability

CCW is delivering research to test the package of bill changes, service improvements and investments in the Draft Determination for customer acceptability and affordability.

We will be using surveys to test the Determination with a sample of around 500 Southern Water household customers, and will conduct in-depth interviews with a small sample of non-household customers.

The household customer surveys will follow the same CCW and Ofwat guidance companies used for testing their business plans with household customers. This will ensure there is consistency and comparability in the results from the business plan testing.

Our research will provide a definitive measure of customers' views of the Draft Determination and how Ofwat's decisions have impacted customer views.

While the results are not available in time for this response (as discussed and agreed with Ofwat), when Southern Water tested its original business plan, it revealed only 11% of customers found the plan affordable, while 47% found the package of improvements acceptable¹⁵.

The current research we are undertaking will show whether the interventions Ofwat has made to increase the ambition of what Southern Water need to achieve (and at a lower price) are more acceptable and affordable for customers.

¹⁴ Page 11: [Overview-of-Southern-Waters-PR24-draft-determinations.pdf \(ofwat.gov.uk\)](#)

¹⁵ Based on SUP14 table provided by Southern Water

We will provide the results of the research to Ofwat in September 2024, as the results are not available in time for inclusion in this consultation response.

Bill profile

The Draft Determination proposes an increase of 44% on the average combined water and wastewater bill in real terms from 2024-5 to 2029-30. This increases to 60% over 2025-30 when forecast inflation is taken into account¹⁶.

This is substantially lower than the 73% (before inflation) increase proposed by Southern in its original Business Plan from autumn 2023¹⁷.

We welcome Ofwat's challenge to the company's proposed costs, so customers can be assured that allowed expenditure is efficient and any poorly evidenced investment is challenged.

We support Ofwat's use of the proposed a delivery mechanism which will see the revenue recovered from customers in the final years of the price control period being dependent on the company's successful delivery of Performance Commitments. If Southern Water does gain the additional funding, bills will rise more in the final years of the AMP and final average bills will be £619 an increase of £199 or 47% over the price control period¹⁸.

While the difference is small, customers should be made aware of this potential when the Final Determinations are published, so any additional increase is not unexpected.

The profiling of the bill increases over the AMP will see customers facing a spike in the first year of the price control period (22%) followed by smaller, smoother rises in subsequent years.

While customers may be pleased that the Draft Determination reduces the impact on bills, the rises will still be unwelcome and will increase the pressure of affordability many face in the current economic climate, particularly the increase of £92 before inflation in average bills in year one of the price control period. The spike in year one is likely to be unpopular and could generate a backlash against the company in the current climate of mistrust in the industry. Ofwat must address the profiling of the bill rises in the Final Determination to ensure that the need for any spike in year one is minimised, explained and justified as far as is possible.

¹⁶ Based on Office of Budget Responsibility economic forecast March 2024

¹⁷ [Key facts and data from water company plans - Ofwat](#)

¹⁸ Page 5: [Overview-of-Southern-Waters-PR24-draft-determinations.pdf \(ofwat.gov.uk\)](#)

Affordability support

Although Ofwat's Draft Determination reduces the impact of Southern Water's proposed bill increases, they will still hit many customers hard.

To address affordability concerns, the company aims to increase the reach of its Social Tariff from 6% of customers to 8% within the price review period¹⁹. In the Draft Determination, Ofwat has simply noted the company's plans on affordability despite the fact that the bill increase under the Draft Determination is likely to leave more customers in the region in water poverty by 2030.

In our comments on the business plan, CCW highlighted that this package is likely to fall short of the level of support necessary to meet the needs of all customers who might qualify for help. Southern Water itself cites that 20% of its customers struggle to pay their bills now²⁰ and this will only increase as bills become higher. We are disappointed that Ofwat has not sought to strengthen Southern Water's proposed assistance package - which lacks the ambition of many other companies in England and Wales – despite saying the company only demonstrated *moderate* ambition in this area.

We are also disappointed to note that Ofwat has not challenged Southern Water on the fact that it does not aim to have eradicated water poverty by 2030, despite all companies in England signing up to a public interest commitment to achieve that.

The company had proposed applying forecast ODI under-performance payments incurred in the current price control period to support its affordability assistance rather than returning these to customers generally. While we suggested this would need customer acceptance testing, it is not clear from the Draft Determination if Ofwat has accepted this proposal or not.

We believe companies should make direct shareholder contributions to funding their social tariffs. While the company has committed to making shareholder contributions to its hardship fund and towards matching payments from customers against their debt, Southern Water relies solely on the cross-subsidy to fund its social tariff. CCW would have liked to see Ofwat challenge the company on this, and to press the company to align with some of its peers in assigning a shareholder contribution to funding its social tariff.

Costs and financing

¹⁹ Page 11: [Overview-of-Southern-Waters-PR24-draft-determinations.pdf \(ofwat.gov.uk\)](#)

²⁰ Page 168: [srn08-affordability.pdf \(southernwater.co.uk\)](#)

Cost efficiency challenge

Ofwat reduced Southern Water's proposed totex by £964m (12%), to £6.9bn²¹. CCW expects Ofwat to remove any poorly evidenced expenditure, inefficient costs and any proposed activities that have been funded previously.

Ofwat has intervened to amend the 'pay as you go' (PAYG) rates requested by the company and will allow £5.8 billion recovery through bills across 2025-30²². Overall these changes will see the recovery of costs over the longer term with future customers making a greater contribution towards the costs of improvement to services. As much of the investment delivers benefits in the long term so we agree that the recovery of these costs should also be spread over the long term.

Energy costs

We support Ofwat's proposal to set assumed energy costs at a baseline reflecting the Government's industrial use index, and 'true up' at PR29 if companies' actual costs are lower or higher.

This protects customers from paying too much up front for what is a significant base cost driver (approx. 15% of base costs are for energy²³) in what is a volatile wholesale energy market. Ofwat's use of the Government index should also incentivise companies to achieve cost efficient deals from their suppliers.

Assumed Rate of Return and Weighted Average Cost of Capital

Ofwat has increased the allowed rate of return to 3.72% (compared to the 3.23% initial view in the final methodology)²⁴. We recognise that with a high-cost investment programme, an increase in equity financing cost assumptions (in the Weighted Average Cost of Capital) is the main driver of the increase in allowed returns as equity needs to increase if the enhancement investment is to be delivered in a financially sustainable way.

The bill impact this can lead to is a concern for CCW given customer affordability pressures, but its effect has been mitigated by the totex efficiency challenges Ofwat has applied.

²¹ Page 4: [Overview-of-Southern-Waters-PR24-draft-determinations.pdf \(ofwat.gov.uk\)](#)

²² Page 3: [Overview-of-Southern-Waters-PR24-draft-determinations.pdf \(ofwat.gov.uk\)](#)

²³ Confirmed in separate correspondence from Ofwat to CCW.

²⁴ Page 9: [PR24-draft-determinations-Aligning-Risk-and-Return-Allowed-Return-Appendix.pdf \(ofwat.gov.uk\)](#)

Ofwat's Draft Determinations make a case that the increase in the assumed cost of equity should retain investment, help address risks associated with highly geared companies²⁵, as well as reflecting market conditions.

It is in this context that we support the reduction of notional gearing to 55%²⁶ as higher leveraged capital structures have risks for customers.

A lower notional gearing assumption increases the weight of the more expensive equity component in Ofwat's notional capital structure, while a higher cost of equity directly increases the cost associated with equity financing.

Together, these factors can lead to higher allowed returns and may appear to be giving some assistance to less financially resilient companies that may have a greater challenge in raising the required equity.

If customers are being asked to pay more to secure the financing needed, it is essential that companies deliver the improvements set out in the Draft Determinations and customers see tangible improvements in their local environment and the service they receive.

Ofwat must also provide assurance that the company can deliver efficiently and demonstrate to customers that they will see and experience improvements in return for paying higher costs to enable this investment.

In an uncertain economic climate, we also do not wish to see a return to the level of financing windfalls in the past when companies were able to raise capital at a lower cost than assumed²⁷.

For the Final Determinations Ofwat needs to consider both the need to attract finance to allow companies to deliver for customers and the environment, and safeguard against risk of high outperformance caused by unexpected changes to inflation, interest rates or other factors by ensuring customers receive a share of any possible windfalls in the future.

Supporting new equity issuance

²⁵ Page 26 of [Ofwat's Financial Resilience Monitoring Report 2022-23](#) shows that 11 companies are above the notional gearing level.

²⁶ Page 7: [PR24-draft-determinations-Aligning-Risk-and-Return-Allowed-Return-Appendix.pdf \(ofwat.gov.uk\)](#)

²⁷ For example, the financing windfalls highlighted in the National Audit Office review of economic regulation in the water sector (2015) see [here](#)

Given the significant increase in investment in this price review, we agree with Ofwat's position that companies must demonstrate that their chosen option for raising finance is in the best interest of customers and the environment²⁸.

Companies will need to raise new equity and we agree that there are potential benefits to customers if companies have an equity listing²⁹, as it allows for greater transparency. This will be welcome as equity raised from private ownership structures can be opaque and complex. This is particularly a concern when dividends are paid.

We agree that non-listed companies should not be disincentivised from obtaining an equity listing because of the costs involved. We agree that in order to receive funding companies must demonstrate that any costs associated with obtaining listed equity are efficient and ensure the delivery of customer supported investment.

Gearing Outperformance Sharing Mechanism

We are disappointed that Ofwat has withdrawn the Gearing Outperformance Sharing Mechanism in its Draft Determinations³⁰. While Ofwat has not had to 'activate' the mechanism since price controls were set at PR19, it may give the impression that Ofwat changed the rules part way through the price control and that if there had been any outperformance since 2020, this would not have been shared with customers as a 'true up' at this price review.

We acknowledge that two thirds of the £4.6 billion equity injected into the sector since 2021 has been to strengthen financial resilience and reduce gearing³¹, but (*if applicable*) Thames/South East/Affinity/Southern still have gearing at over 70% which may carry financial risks³².

The presence of the sharing mechanism coupled with the notional gearing of 55% may help discourage excessive gearing by reducing the financial incentives for companies to take on high levels of debt, and therefore adds to the range of options Ofwat has to protect financial resilience. Ofwat should reintroduce this mechanism, calibrated to account for changes in forecast inflation that were unforeseen when it was last set at PR19.

Customers should also benefit from the lower costs associated with high gearing, especially since they bear some of the risks if a highly geared company encounters financial difficulties.

Cost Adjustments

²⁸ Page 71: [PR24-draft-determinations-Aligning-Risk-and-Return-Allowed-Return-Appendix.pdf \(ofwat.gov.uk\)](#)

²⁹ In the same way that FTSE index companies have listed equity

³⁰ [PR24-draft-determinations-Aligning-Risk-and-Return-Appendix-1.pdf \(ofwat.gov.uk\)](#) page 68

³¹ Confirmed in separate correspondence from Ofwat to CCW.

³² Page 16: [PowerPoint Presentation \(ofwat.gov.uk\)](#)

Southern Water applied for six cost adjustments in five areas of base expenditure³³. Ofwat has rejected three of these – for regional wage costs, a coastal population, and wastewater network reinforcement – saying that they did not meet the ‘need’ or ‘efficiency’ assessment criteria. For meter replacement, Ofwat has applied a sector-wide meter replacement base cost adjustment, which has increased Southern Water's base expenditure allowance by £109 million, £20 million more than requested. The remaining claims – for wastewater growth and advanced anaerobic digestion - have been addressed through enhancement expenditure.

We raised concerns about these claims in our comments to Ofwat on the business plan. We are pleased that Ofwat has scrutinised the claims and we support the decisions it has made, subject to further evidence from the company.

Cost sharing rate

Customers are likely to welcome Ofwat's proposed 40/60 cost sharing rates which will see the company bearing a higher proportion of any overspends against cost allowances, or returning more of any underspends back to customers.

Delivery Mechanism

Southern Water's business plan represents a step change in investment and ambition to deliver improvements, particularly for the environment. In light of concerns over deliverability and cost, the company had proposed phasing delivery of some outcomes over eight rather than five years. Ofwat rejected this proposal but has agreed to introduce a delivery mechanism.

Under this mechanism some funding for continuous water monitoring, storm overflows, phosphorous removal, and nitrogen removal totalling £464 million will be withheld and made available to the company only when, and if, it is judged to be in a position to deliver³⁴.

The mechanism will require enhanced monitoring by Ofwat and reporting by the company to allow Ofwat to make a determination in years two, three and four of the price control period whether to allow additional funding and the impact this will have on bills.

Given the uncertainty over the deliverability of Southern's plan, CCW supports this mechanism despite the additional oversight it will require and the variability of bills it will introduce. It will potentially help protect customers from unnecessary costs, and the company from the impact of under-delivery.

³³ Page 35: [PR24-draft-determinations-Total-expenditure-allowances-by-company.pdf \(ofwat.gov.uk\)](#)

³⁴ Page 5: [Overview-of-Southern-Waters-PR24-draft-determinations.pdf \(ofwat.gov.uk\)](#)

However, there is some uncertainty for customers. The company has been challenged to provide proof and assurance that it is able to deliver its commitments before further revenue is allowed. If Southern's meet this challenge, it will see the average combined bill increase by a further £16³⁵.

We support the application of the delivery mechanism as Southern's recent history of poor performance³⁶ across its Performance Commitments³⁷ means there is a risk of customers paying 'up front' for investment and service improvements that Ofwat has not been assured is fully deliverable.

By assigning £464m of totex under the delivery mechanism, customers can be assured that further increases will only be allowed if the company is on track and provides convincing proof that it can deliver the improvements customers want to see.

While this does create a degree of uncertainty for customers, this added protection is welcome as customers should not pay more to a company that perpetually fails and does not show signs of improvement.

However it is unclear what will happen if Southern Water fails to provide the assurance required. We would like Southern Water to share the information it's required to provide under the delivery mechanism with CCW. Ofwat should consult CCW and other stakeholders further before any further revenue increases are allowed. It is important that as the consumer body we are also assured that Southern Water can deliver its commitments.

Customer influence

Ofwat says that it considers Southern Water properly engaged with its customers in developing their business plan. It did have some concerns about the effectiveness of its Independent Challenge arrangements, but these did not have a material effect on its ability to complete the review³⁸.

Ofwat recognises that the priorities and targets proposed in Southern Water's business plan reflect those established through the company's extensive engagement with customers and stakeholders in the development of the plan³⁹.

³⁵ Page 3: [Overview-of-Southern-Waters-PR24-draft-determinations.pdf \(ofwat.gov.uk\)](#)

³⁶ Page 5: [PowerPoint Presentation \(ofwat.gov.uk\)](#)

³⁷ Page 19: [annual-report-and-financial-statements-2023-24.pdf \(southernwater.co.uk\)](#)

³⁸ Page 5: [PR24-draft-determinations-Southern-Water-Quality-and-ambition-assessment-appendix.pdf \(ofwat.gov.uk\)](#)

³⁹ [srn03-customer-acceptability.pdf \(southernwater.co.uk\)](#)

However, outside of the brief mention within the quality assessment summary there is little explanation of the extent to which Ofwat has assessed the quality and extent of the company's customer engagement and challenge of the business plan, or how it may have influenced its Draft Determinations. In the main '*Delivering Outcomes for Customers and the Environment*' document, the only mention of customer engagement having any influence is where it states that customer support may be used in support of a bespoke performance commitment.

There is also a line in the 'Your Water Your Say' report that suggests a larger suite of evidence has been considered:

"Evidence from 'Your water, your say' surveys forms part of the suite of evidence of customers' and stakeholders' views that we have considered for our Draft Determination".

However, we cannot find the larger suite of evidence in the supporting published documents.

Given the scale of research and engagement that took place to inform the company's business plan, including the work of the *ICG name* in pushing the company to go further, summarising this effort in a few lines sends a signal that customers' views have not been adequately considered by Ofwat.

This is particularly disappointing considering the requirements placed on companies in relation to transparency about the use, or otherwise, of evidence from customer engagement in its decision making. In its 2022 position paper "*PR24 and beyond: Customer engagement policy*" Ofwat stated in its section on board assurance of customer engagement under the Transparent heading that *"companies should be able to demonstrate how they have taken account of evidence from customer engagement. Companies should be able to explain why they have not taken account of evidence from customer engagement or research wherever this is the case."*⁴⁰

Ofwat has not followed its own guidance in its Draft Determinations. It is not clear to what extent customer engagement evidence has impacted on its decision making. We continue to believe that meaningful customer research and engagement must be a key part of decision making for future investment. However, the lack of information about how Ofwat has considered this evidence could lead companies to question whether the extensive engagement they carried out was worthwhile.

While customers may welcome Ofwat's expectation that the company will do more work with less funding, it will need to take into account the findings of acceptability testing of the Draft Determination to help ensure the Final Determination reflects the expectations of Southern Water's customers.

⁴⁰ [Ofwat PR24 and beyond Customer engagement policy – a position paper February 2022 Page 11](#)

Customer experience

C-MeX

We support the Customer Experience measure (C-MeX) to measure and incentivise improvements in customer satisfaction with both contacts and non-contacts through the use of surveys and cross-sector comparators. We support the increase in the financial value of this incentive for 2025-30, so it is comparable to other ODIs, and the greater weighting in the satisfaction of customers who have had reason to contact the company.

Ofwat's move to set C-MeX targets based on the UKCSI all-sector upper quartile as a benchmark for a company's customer satisfaction should see every company incentivised to improve to a level comparative with customer satisfaction with other sectors.

However, the Draft Determinations lacks specific annual targets for companies, to show the level of stretch needed from current C-MeX targets to reach the UKCSI benchmark, so we would like Ofwat to confirm that it will consult CCW further on this.

We are disappointed that, after extensive engagement with Ofwat, an additional metric to measure customer complaint volumes is not part of the range of C-MeX components.

Our annual complaints reports⁴¹ show a continued increase in customer complaints in the last three years. High volumes of complaints are evidence of a poor experience by many customers and can be an indicator of more fundamental problems.

Measures of customer satisfaction alone may not adequately incentivise companies to resolve customer issues first time to prevent complaints and address the causes of complaints. As such, we want to see 25% of the value of C-MeX based on a measure of the volume of complaints a company receives.

Ofwat raises concerns in the Draft Determinations about the reliability and accuracy of complaint data as reported by companies, as the basis of its decision to exclude a complaints volume metric. However we have demonstrated to Ofwat how CCW has delivered greater consistency in data reporting through the development of our guidance to companies, and new complaint assessments. Including telephone and other complaints (in addition to written complaints) in our data suite means a full picture is possible of company performance. After a shadow period, we first published this information in our 2023 complaints report⁴². By the start of the 2025 period, we will have three years

⁴¹ [Household customer complaints report 2023 - CCW](#)

⁴² [Household customer complaints report 2023 - CCW](#)

of complaints information, which includes telephone and other ways to contact. Written complaints data has, of course, been reported on for many years.

The Draft Determination also says that Ofwat has ongoing concerns about data quality across all PCs, and commits to greater scrutiny to ensure data is robust and can be trusted. We fail to see how complaints data quality represents a greater risk of data inconsistency than other data sources, and would like Ofwat to reconsider including a complaints volume metric in C-MeX. Otherwise this is a missed opportunity to address the trend of rising complaints to incentivise poor performing companies to improve, because complaints volumes can be seen as evidence of the wider decline in customers' trust with the sector.

Alternatively, Ofwat could consider a separate performance commitment on the volume of complaints. Ofwat could signal its intention to include this from 2026 onwards in the Final Determination, if it needs time to develop targets for each company.

Business customer experience

We support the introduction of BR-MeX to incentivise companies to deliver a better customer service experience for business customers. We are pleased to see the associated rewards and penalties align with the value of other ODIs.

The 50/50 balance between the retailer and business customer experience in England is appropriate as both elements should reflect how wholesale companies are directly and indirectly serving customers (via the retailer).

However, we note that an alternative model could be 50% customer experience, 25% retailer experience, and 25% retail market performance (MPF) metrics.

In this scenario, we agree it is appropriate for the customer experience element not to be diluted, and remain at 50%. With respect to the inclusion of the current MPF metrics, we agree that these have a clear customer impact given the importance of good quality asset data, and bilateral requests being responded to on time.

However, other MPF metrics outside of BR-MeX could be subject to change in terms of the performance levels and targets set. We believe Ofwat should apply the same flexibility to the metrics included in BR-MeX.

We support BR-MeX being an absolute target for 2025-30 as it has no past performance data. However, it may be appropriate to move towards relative targets for future periods to more strongly incentivise poor performers once there is more data available.

Operational incidents

The household and business customer experience measures for England and Wales no longer include a proposal to include a separate component for non-contact operational incidents due to concerns over how to define the scope of customers and survey them.

We recognise that this is a risk, but suggest that the proposed new common PC for serious supply interruptions may mitigate this. As well as measuring the volume and frequency of 12 hour+ incidents, we suggest that this should be an opportunity to survey customers' experiences as part of this. In this way it will also be a measure of customers' experiences with the companies in the context of longer supply interruptions.

Statutory investment programme

Environment programme

We recognise that the environment and drinking water quality programmes are driven by legislation, but we have seen from Southern's customer engagement and the research to test the business plan that customers broadly want to see the improvements these programmes should deliver⁴³.

A significant proportion of Southern's Water Industry National Environmental Programme (WINEP) expenditure is for nitrogen removal. Southern Water's proposed expenditure was significantly higher than that proposed by three other companies⁴⁴. In Ofwat's view, the company did not present sufficient and convincing evidence that its proposed expenditure was efficient or provided the best option for customers. As a result of its significant concerns around these areas, Ofwat has applied a 40% cost challenge and allowed £160 million of the company's proposed £267 million. CCW agrees with this challenge as such investment should be justified by sound evidence that the best solutions can be delivered at an efficient cost.

Storm overflows

In the absence of a performance commitment to track the harm caused by storm overflow spills, we want to see a clear plan from the company which demonstrates its delivery of the storm overflow reduction programme prioritises the spills that cause most frequent cause harm to rivers and bathing water.

⁴³ Page 65: [srn03-customer-acceptability.pdf \(southernwater.co.uk\)](#)

⁴⁴ Page 37 [PR24-draft-determinations-Total-expenditure-allowances-by-company.pdf \(ofwat.gov.uk\)](#)

Such a prioritisation plan should be transparent to customers so they can be assured that the storm overflows causing most harm are subject to improvements first. Southern Water should commit to publishing its prioritisation plans to show how and when it will deliver work to address storm overflows.

To enable this, the company needs to address any 'gaps' in its evidence⁴⁵ and may need to carry out further assessments of sites at risk. Ultimately, companies should comply with their licence and make sure no spills occur unless there is exceptional weather.

We support the requirement for companies to report active event duration monitor data, along with total spills per total number of storm overflows. This should incentivise timely maintenance of monitors.

CCW supports the level of base costs allowed for addressing reductions in storm overflow spills and the harm they cause. We consider that companies can deliver improvements in storm overflow spills by preventing or removing blockages, undertaking investment to ensure existing permits are met and maintaining assets well. The Environment Agency identified in 2021-23 that 18% of high-spilling overflows are due to operational issues including maintenance⁴⁶.

Customer protections

We support the introduction of Price Control Deliverables and other protections in place to remunerate customers in the event of failure or delay in delivering.

Nature based solutions (NBS)

We welcome increased allowances for the company to use nature based approaches to some of the solutions needed to improve environmental standards and reduce pollution, particularly in addressing storm overflows⁴⁷. Our research show that customers broadly support nature based solutions as they can be more sustainable in the long term⁴⁸.

Our recent research⁴⁹ on river quality also shows that people have become more concerned about supporting nature and no longer relying entirely on built solutions. Protecting and restoring

⁴⁵ The EA's Reasons for not achieving Good (RNAG) data may provide such evidence.

⁴⁶ [Event Duration Monitoring - Storm Overflows - Annual Returns - data.gov.uk](https://data.gov.uk/dataset/event-duration-monitoring-storm-overflows-annual-returns) (see table 5 2022 EDM Storm Overflow Annual Return

⁴⁷ Page 7: [Overview-of-Southern-Waters-PR24-draft-determinations.pdf \(ofwat.gov.uk\)](https://www.ofwat.gov.uk/consult/indpr24/pr24-draft-determinations/07-overview-of-southern-waters-pr24-draft-determinations.pdf)

⁴⁸ [Keen to go Green? Customer preferences and priorities for waste water solutions - CCW](https://www.ccw.gov.uk/research/2024/04/04/Keen-to-go-Green-Customer-preferences-and-priorities-for-waste-water-solutions)

⁴⁹ [Customer Spotlight: People's views and experiences of water 2024 - CCW](https://www.ccw.gov.uk/research/2024/04/04/Customer-Spotlight-People-s-views-and-experiences-of-water-2024)

biodiversity is a generally well supported concept, and a high priority for customers who see the wider benefits of working with nature.

It is important for companies to trial new approaches to identify and share successful new innovations that may be lower cost and more sustainable in the long term.

Drinking Water Quality programme

We support investment in reducing lead pipes as this addresses both water quality and a public health risk. The industry will be doing more to co-ordinate lead reduction trials in 2025-30 so they can share learnings on what has most success in terms of customer engagement and uptake of lead reduction schemes, particularly private supply pipes and pipes inside properties. This should be a good basis for making further significant progress in PR29.

We support the other allowances under the drinking water quality programme, which while higher than the equivalent at PR19, appears to be a pragmatic approach to addressing risks and offers protection for customers through the use of the PCD mechanisms.

We welcome the programme also seeking to address the causes of customer contacts about drinking water. This should be an area that directly improves the service so customers will hopefully see the improvement delivered.

Security and Emergency Measures (SEMD)

Water supply security is a primary statutory responsibility for companies. We support setting a common security (SEMD) non-delivery PCD to protect customers. Failure to deliver in this area is failing customers who expect their companies to deliver resilient services. The PCD covers both physical security and emergency planning, which are both key aspects of ensuring these essential services are resilient.

Ofwat expects Southern Water to undertake a significant proportion of its proposed work to improve operational cyber security within its base expenditure allowance and it needs to provide additional evidence for optioneering and cost efficiency. The draft determination allows £37 million of the company's proposed £122 million.

Discretionary investment programme

Discretionary investment is limited in this determination due to the high cost of the statutory investment programmes, as trade-offs have been made to protect customer affordability.

This has meant that some customer supported investment proposals have been delayed, reduced or cut entirely, so we remain concerned that some issues such as emission reductions to help

achieve net zero compliance, asset resilience and drinking water quality improvements may not be fully addressed until PR29 or beyond.

In this context, Ofwat must ensure companies provide assurance that any deferred investment does not lead to risk to service delivery in the intervening period, and indicate what future bill impacts may be when companies have to 'catch up' at a later date. We also have a concern that deferred schemes may be more urgent and costly when it comes time to deliver them.

Flooding and power resilience

Ofwat's draft determination does not allow Southern's enhancement allowance requests for flood and power resilience (total £32 million), infiltration (£39 million) and operational resilience (£6 million). This is because of poor evidence of need, predominantly related to overlaps with activities covered through base expenditure⁵⁰. However, it has provided a 0.7% resilience uplift at industry level for Southern Water (£14 million) to enable it to deal with the impacts of climate change, and £3 million for coastal erosion. The Draft Determination allows £16 million of the company's proposed £94 million.

Again, CCW expects Ofwat to challenge poorly evidenced and inefficient expenditure. Customers view the resilience of services as a priority⁵¹. If the company provides better evidence to justify this investment, we would support this investment given the level of customer support.

Mains renewal

The Draft Determination allows Southern expenditure to increase the water main renewals rate from 0.17% to 0.61% over 2025-30⁵². This is an improvement but does not go far enough as it will take hundreds of years for the network to be fully renewed.

Customers may question why Southern Water was allowed to build up a backlog of required asset replacement and maintenance due to a lack of investment in the past. As the company's research shows customers want to see the service improvements new and renovated assets should deliver, we support the allowance in the draft determination.

A higher mains renewal rate should see the company deliver other benefits such as leakage reduction and drinking water quality improvements, so the final determination needs to set out clearly the wider benefits to address customer priorities this investment should deliver.

⁵⁰ Page 35: [PR24-draft-determinations-Total-expenditure-allowances-by-company.pdf \(ofwat.gov.uk\)](#)

⁵¹ Page 65: [srn03-customer-acceptability.pdf \(southernwater.co.uk\)](#)

⁵² Table 6: [PR24-draft-determinations-Expenditure-allowances-to-upload.pdf \(ofwat.gov.uk\)](#)

We also support the customer protections Ofwat has applied to ensure costs are efficient, the assurance the company needs to provide that it can deliver before additional funds are allowed, and the PCDs and other mechanisms in place to return money to customers in the event of failure or delay.

Net zero

Under the requirements of the Industry Emissions Directive (IED), Ofwat considered Southern Water's schemes generally inefficient compared to other companies. It has allowed £70 million of the company's proposed £172 million⁵³.

Companies in England made a public commitment to achieve net zero carbon emissions by 2030⁵⁴. Companies say this is not achievable, but the net zero commitment is still in the public domain. If this pledge is no longer achievable, companies need to be clear with customers on what progress will be made to 2030, when net zero will be fully achieved, and what the cost and bill impact implications will be of delivering this commitment.

Water resources and demand management

Customers placed a high priority on the reliability and resilience of water supplies in the customer engagement Southern carried out to inform its business plan, so CCW supports well evidenced investment in water resources over 2025-30⁵⁵.

This should help protect the region from drought, build new sources of water supply, and help customers save water, and aligns with the company's Water Resources Management Plan.

Water Resource Management Plan

We recognise that Southern Water's Water Resource Management Plan (WRMP) is not yet finalised. This creates a level of uncertainty as it has been developing its WRMP since the business plan was submitted. The company is facing a complex task in meeting the challenges of ensuring an adequate, reliable supply of water within its region for the future at a time of uncertainty with climate change, population growth and demand.

Ofwat found that the business plan was not consistent with the latest WRMP areas across all component parts, and in some areas the company's business plan lacked sufficient evidence for its

⁵³ Page 38 [PR24-draft-determinations-Total-expenditure-allowances-by-company.pdf \(ofwat.gov.uk\)](#)

⁵⁴ [Water industry reaffirms pledge to work in the public interest | Water UK](#)

⁵⁵ Page 65: [srn03-customer-acceptability.pdf \(southernwater.co.uk\)](#)

proposals. However, Ofwat did not consider its concerns had a material effect on its ability to make a determination⁵⁶.

In general, we support the twin track approach in the WRMP of increasing and maximising availability of water supplies, while also reducing the demand for water through reduced consumption and leakage.

We also agree with the added protection/resilience it potentially provides for flexibility (for example, if demand reduction isn't delivering, supply schemes can be fast tracked and vice versa). This will be needed if companies' limited control over how their customers choose to use water (particularly during droughts and reference the huge peaks in demand during 2022) means there are limits on how far they can go with demand management.

We support the added protection for customers through the use of PCDs to incentivise delivery, which also avoids the risk of companies benefitting from external factors such as more favourable weather conditions etc. or other contributing risk factors changing.

Water efficiency

Ofwat found no evidence why Southern Water's water efficiency programme would cost much more than its peers. Based on Ofwat's cost benchmarks for water efficiency activities, the draft determination allows £3 million of the company's proposed £21 million⁵⁷. Based on the inefficient proposal revealed under this benchmarking, CCW supports this decision.

Smart meters

Smart meters are essential to managing and reducing demand and identifying leakage. We wish to see further clarity about the £109 million expenditure allowance for meter replacement⁵⁸ to help reduce household and business demand, and the expectations this investment implies for leakage reduction and tariff development.

It is positive to see that Ofwat has provided minimum expectations about what companies should consider (i.e. optimal technologies, rather than low cost and reduced functionality), and the frequency for data to be collected. However, more detail is required to show how smart metering will be rolled out in a way that benefits the areas more at risk of water scarcity first. The Draft Determination shows that Ofwat has challenged the company's proposed costs but not how the

⁵⁶ Page 7 [PR24-draft-determinations-Southern-Water-Quality-and-ambition-assessment-appendix.pdf \(ofwat.gov.uk\)](#)

⁵⁷ Page 36: [PR24-draft-determinations-Total-expenditure-allowances-by-company.pdf \(ofwat.gov.uk\)](#)

⁵⁸ Page 35: [PR24-draft-determinations-Total-expenditure-allowances-by-company.pdf \(ofwat.gov.uk\)](#)

programme will be prioritised and delivered. There should also be sharing of good practice within the industry on how smart meters have been rolled out to homes and businesses, so that companies can learn from each other.

We have called for smart metering for businesses to give customers better information and control over their usage⁵⁹. However, Ofwat appears to have set a single unit cost for metering to cover household and non-household. This seems likely to lead to companies avoiding large meters or those where installation is difficult as they would not be cost effective to tackle and would result in less money to deliver the rest of the programme.

There is an issue with long unread meters in the non-household retail market, often due to their inaccessible location⁶⁰. Replacing these meters could be costly but failing to do so, and choosing simpler installations instead, would fail to address a major issue for non-household customers.

Water Efficiency Fund

CCW supports the aims of Ofwat's proposed Water Efficiency Fund - we agree there is an urgent need for a new approach to increase the focus on demand management. We have submitted responses to both of Ofwat's consultations.⁶¹

Performance Commitments and Outcome Delivery Incentives

Performance Commitments (PCs) need to show evidence of significant improvements on current performance for a range of measures that matter to both customers and the environment.

As such, we welcome Ofwat's challenges to the company's PC targets to deliver more stretching improvements than the company proposed in areas we highlighted in our assessment of the business plan⁶². Ofwat has intervened to raise the ambition of almost all the targets for Southern Water's Performance Commitments. However, we previously voiced concerns about the company's ability to deliver the commitments it set out in its business plan, given its historic performance record. The increased ambition and lower funding set out in the Draft Determination represent a major challenge for the company to deliver and increase that concern. We look to Ofwat and the

⁵⁹ [Our review of five years of the water retail open market - CCW](#)

⁶⁰ [Our review of five years of the water retail open market - CCW](#)

⁶¹ [CCW response to Scoping the Water Efficiency Fund: Second Ofwat Consultation - CCW](#) and [Ofwat's consultation response on Scoping the Water Efficiency Fund: High Level - CCW](#)

⁶² improving river water quality, reducing external flooding, increasing biodiversity, reducing customer contacts about water quality, reducing leakage

company to confirm that the Draft Determination is deliverable as it will damage the credibility of the determination process if it is not.

Only the targets for greenhouse gas emissions (wastewater) and business demand appear to be lower than the company proposed. These should be revised in the Final Determinations, to bring them closer to what the company had submitted in its business plan, given the proposed expenditure in these two areas of activity.

Ofwat's resetting of targets means the delivery of most PCs will be more stretching and challenging for the company, but that customers will see greater improvements in service if they are met – which we support. This includes areas which are priorities for customers, particularly environmental protection and better water security and supply.

As well as challenging the company on its ambition, Ofwat has also made significant reductions to the costs Southern Water had proposed to meet its targets. For example, as the company's unit cost for other (non-mains renewal) leakage activities was four times higher than Ofwat's benchmark unit cost and Ofwat has allowed £50 million of the company's proposed £239 million.⁶³

We acknowledge and support Ofwat's actions to ensure the company's costs allow for efficient delivery and will ensure customers are not being asked to pay more than they need, or to pay for activities already financed.

Ofwat has not allowed Southern Water's proposed bespoke PC on Abstraction Incentive Mechanism (AIM)⁶⁴ on the basis that there is limited evidence that AIM is providing any significant benefits to the ecology of rivers included in it, and therefore customers could pay for no real benefits if the proposal was progressed. Ofwat considers the outcomes intended for AIM could be realised through the strategic resources options currently being investigated under the Regulators' Alliance for Progressing Infrastructure Development (RAPID) gated process. This appears in line with the view of the Environment Agency. While CCW is not in a position to comment on the evidence of the effectiveness of the AIM, we note that protection of the region's chalk streams is of international importance.

Serious Supply Interruptions

We support Ofwat's proposal for a new 2025-30 PC to track serious supply interruptions (of 12 hours or more). This should provide added transparency of company performance and an added

⁶³ Page 36: [PR24-draft-determinations-Total-expenditure-allowances-by-company.pdf \(ofwat.gov.uk\)](#)

⁶⁴ Page 7: [PR24-draft-determinations-Southern-Water-outcomes-appendix.pdf \(ofwat.gov.uk\)](#)

incentive for companies to reduce lengthy supply interruptions which can have considerable impacts on businesses and households.

Leakage

Leakage reduction is a customer priority⁶⁵. CCW welcomes companies' efforts to continue to reduce leakage as it helps to improve the resilience of water resources, to protect the environment and also supports companies in reducing their GHG emissions from treating and pumping water.

Leakage reduction should also be shown to be part of a wider long-term strategy to reduce per capita consumption of water and invest in more water transfer and storage. We support a rate of improvement to help meet the unprecedented challenges posed to water supplies by climate change and population growth.

As a result the scale of expenditure allowances to reduce leakage is higher at PR24 than it was at PR19, in the context of a long-term aim to halve leakage by 2050. This means there needs to be clear correlation between the allowance given and the level of ambition in the company's leakage reduction PC.

Southern Water is expected to reduce leakage by 13% over 2025-30⁶⁶. This is a significant improvement on its current comparatively poor position.

Sewer flooding

The absolute target of 13% reduction⁶⁷ applied to the internal sewer flooding PC is lower than the equivalent target set at PR19 and is unacceptable. While we accept trade-offs have been made to protect customer affordability in the light of a high cost environment programme, Ofwat's joint research with CCW⁶⁸ clearly shows the impact sewer flooding can have on households, businesses and communities, so this should be more challenging with relative targets and related investment and base costs applied to better incentivise the comparatively poor performers.

The level of ambition to reduce sewer flooding events should be greater than that set in the Draft Determination. The investment to address storm overflows caused by surface water ingress (particularly through base cost allowances to increase sewer maintenance), should have the additional benefit of reducing sewer flooding risks. We are unconvinced that the absolute target of 13% takes this into account.

⁶⁵ Page 5: [Summary-of-research-on-customer-preferences-1.pdf](#)

⁶⁶ Page 8: [Overview-of-Southern-Waters-PR24-draft-determinations.pdf \(ofwat.gov.uk\)](#)

⁶⁷ Page 6: [PR24-DD-sector-summary.pdf \(ofwat.gov.uk\)](#)

⁶⁸ [Customer experiences of sewer flooding - CCW](#)

We support Ofwat's exclusion of exceptional weather in the sewer flooding PC design as including it may disincentivise companies from addressing sewer flooding risks in periods of prolonged/heavy rainfall.

Business demand

This is the first time there has been a PC on water wholesale companies to specifically reduce business water demand. It reflects the inclusion of the business water demand reduction target in the Environment Act 2021.

We are pleased to see that separate targets have been set for businesses and welcome the introduction of measured collaborative working between retailers, wholesalers and other parties to achieve the reduction in business demand.

PCs show a reduction of 8.2% for business demand by the end of the AMP⁶⁹ compared with 2019/20 baseline. Defra expects an overall reduction in business usage of 9% by 2037⁷⁰ so Southern should be sufficiently incentivised to meet the Defra target.

Drinking Water Quality customer contacts

A high level of drinking water quality customer contacts can be viewed as evidence of the level of drinking water quality issues affecting customers (as customers are most likely to contact a company only if there is a problem), so we support this PC to give transparency and incentivise companies to address customer issues effectively.

We are aware the some companies have challenged the use of the Drinking Water Quality customer contact PC as they rely on customer contacts to alert them to drinking water taste, odour and appearance issues, which they otherwise may not know about. In this context, companies consider it may lead to them discouraging customer contacts. We disagree with this argument, as companies should want to know about problems as they could have a public health impact.

Ofwat could develop a separate metric in this PC to track repeated contacts from the same customer and/or location, so there is greater distinction between overall contacts and those where the company has failed to respond effectively.

Outcome Delivery Incentives

⁶⁹ <https://www.ofwat.gov.uk/wp-content/uploads/2024/08/Key-Dataset-1-V4.xlsx>

⁷⁰ [A summary of England's revised draft regional and water resources management plans - GOV.UK \(www.gov.uk\)](https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/123456/A_summary_of_England's_revised_draft_regional_and_water_resources_management_plans_-_GOV.UK.pdf)

Outcome Delivery Incentives (ODIs) should drive companies to improve in areas of service where they are currently comparatively poor and/or where robust evidence shows customers want to see improvement.

In this context we support:

- ODI rates that are proportionate to the size of the company's regulated capital value, so incentives are sufficiently strong to prevent failure but not disproportionate to the allowances needed to deliver customer supported investment.
- The top-down approach to setting rates which means the eight PCs that more directly affect customers⁷¹ have a higher value, which we support.
- The removal of caps and collars for more established PCs, with an aggregate sharing mechanism in place to ensure any higher rewards for outperformance beyond PC targets are shared with customers. Established PCs have more historical performance data to inform target setting which means more confidence in the level of stretch and ambition set, so the protections from caps and collars are not needed to mitigate against uncertainty.
- The new reporting methodology Ofwat proposes, which will provide greater transparency, accuracy and assurance on how companies are performing.

Given the absolute target will not lead to upper quartile performance, we question whether the potential financial reward available is proportionate for the improvement the company is challenged to achieve.

We do not support the use of enhanced ODI rates for six PCs⁷² to provide additional outperformance payments to higher performing companies. Even with the aggregate sharing mechanism in place, customers will still be asked to pay more for areas of service they may view as a company's basic responsibility.

While this may encourage companies to go further and set the bar higher for others to follow, asking customers to pay more for an area of company performance that customers may regard as a basic responsibility by companies does not justify bigger rewards.

⁷¹ Water supply interruptions, Customer contacts about water quality, Leakage, Per capita consumption, internal sewer flooding, External sewer flooding, total pollution incidents, Storm overflows – these PCs have ODI rates of +/- 0.6% of RoRE (compared to +/- 0.5% for 'standard' ODIs).

⁷² Water supply interruptions; leakage; per capita consumption (PCC); internal sewer flooding; external sewer flooding; and total pollution incidents

Ofwat has set symmetrical ODI rates for out-performance and under-performance. It has acted to increase the ODI rates proposed by the company in its plan, particularly for pollution incidents and supply interruptions – which are the top two customer priorities⁷³. Ofwat considered the rates proposed by the company did not offer a sufficient delivery incentive. As the aim of the ODI system is to encourage performance, rates need to be set at levels which do this and so we support Ofwat's decision.

Long term context

Southern Water's business plan is a milestone towards delivery of its long-term strategy. This includes using an adaptive planning approach to model how its long-term ambitions can be achieved, taking into account customers' views.

However, we do note that uncertainty still remains over the company's WRMP and delivery of its WINEP commitments.

In addition, the next price control period has more general uncertainties around impacts of new requirements from the Environment Agency, which may result in an in-period determination being needed.

There is also potential for other price control re-openers with from ODI's, delivery costs mechanisms and energy cost adjustments.

CCW is concerned that all this implies there could be further affordability concerns for customers arising during the next price period.

Enquiries

Enquiries about this consultation should be addressed to:

Michael Barnes

Policy Manager

CCW

Michael.Barnes@ccwater.org.uk

07824 416 654

28 August 2024

⁷³ Page 65: [srn03-customer-acceptability.pdf \(southernwater.co.uk\)](#)