



The voice for water consumers
Llais defnyddwyr dŵr

CCW's response to Ofwat's 2025-30 Draft Price Determination for United Utilities

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 United Utilities (UU).

2. Executive Summary

Overall view

We are assured that due to Ofwat's efficiency challenges United Utilities 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.

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.

It is vital that the outcome sees UU deliver the commitments in its price determination and demonstrates to customers what they are getting that is tangibly better than now in terms of service performance and environmental improvements.

We are disappointed to note that Ofwat has not challenged the company on the fact that it does not expect to have eradicated water poverty by 2030.

Customer trust in the sector has declined in CCW's annual Water Matters surveys¹, and Ofwat's recent research² has found that only 38% trust their water company to provide them with good value 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 environment³. PR24 must be a strong driver for UU 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.

¹ [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.

² [Wave Five of Ofwat's Cost of Living research](#) (undertaken in March)

³ [Customer Spotlight: People's views and experiences of water 2024 - CCW](#)

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.
- Bespoke Performance Commitments for Wonderful Windermere and reducing greenhouse gases - which had high customer research backing - have been accepted⁴.
- The increase in social tariff funding from 5% to 15% of households.⁵
- 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%⁶ as higher leveraged capital structures have risks for customers.
- The introduction of BR-MeX to incentivise better customer service for business customers.

⁴ [UUW03 Chapter 3 Customers and communities shape our business plan \(unitedutilities.com\)](#) page 73

⁵ [Overview-of-United-Utilities-PR24-draft-determination.pdf \(ofwat.gov.uk\)](#) page 12

⁶ Page 7: [PR24-draft-determinations-Aligning-Risk-and-Return-Allowed-Return-Appendix.pdf \(ofwat.gov.uk\)](#)

- 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.

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

- We have concerns that Ofwat's target reduction for storm overflows of 55% by 2029-30 will be a substantial challenge given the level of combined sewers in the North West as well as less funding than requested.
- We are disappointed to see that there is a lack of requirement for United Utilities to end water poverty by 2030. United Utilities expects that there will still be 233,000 customers in water poverty at the end of the AMP.
- 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 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.

3. 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 of UU's 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 UU tested its business plan in 2023, it revealed only 15% of customers found the plan affordable, while 70%⁷ found the package of improvements acceptable.

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

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

⁷ Page 1: [PowerPoint Presentation \(unitedutilities.com\)](https://www.unitedutilities.com)

The Draft Determination proposes an increase of 21% on the average combined water and wastewater bill from 2024-5 to 2029-30⁸. This increases to 32% over 2025-30 when forecast inflation is taken into account⁹.

This is lower than the 25% (before inflation)¹⁰ increase proposed by UU in its revised Business Plan from spring 2024¹¹.

We welcome 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.

Customers have also told us they are struggling to afford their bills in the current cost-of-living crisis. We therefore believe that Ofwat's imposition of a smoother bill profile to spread the investment costs across the period is more appropriate than one which frontloads price increases on customers' bills.

Affordability support

We are supportive of the affordability plan that UU has put in place. The company consulted widely with CCW and the Expert Challenge Panel when developing its plans.¹²

We welcome United Utilities' plans to increase social tariff provision to support customers who might be struggling to pay their bills from 5% of households in 2020-25 to supporting 15% in 2025-30¹³. The company will need to be flexible to adapt to customers' needs throughout the next price control period.

However, we are disappointed to note that Ofwat has not challenged the company on the fact that it does not expect to have eradicated water poverty by 2030. All companies in England signed up to a public interest commitment to achieve that by 2030. Despite this, Ofwat has simply noted the company's plans on affordability despite the fact under the Draft Determinations these are likely to leave some customers in the region in water poverty at 2030.

We believe companies should make direct contributions to funding their social tariff, so we support UU shareholders' contribution of £69 million towards social tariffs, £17 million to hardship funds and £86 million matching payments are made by customers repaying debts¹⁴.

⁸ [Ofwat sets out record £88 billion upgrade to deliver cleaner rivers and seas, and better services for customers - Ofwat](#)

⁹ Based on Office of Budget Responsibility economic forecast March 2024

¹⁰ [Key facts and data from water company plans - Ofwat](#)

¹¹ [Key facts and data from water company plans - Ofwat](#)

¹² [Affordability and Acceptability Testing Research | United Utilities](#)

¹³ Page 12: [Overview-of-United-Utilities-PR24-draft-determination.pdf \(ofwat.gov.uk\)](#)

¹⁴ Page 12: [Overview-of-United-Utilities-PR24-draft-determination.pdf \(ofwat.gov.uk\)](#)

In the Draft Determination Ofwat has highlighted levels of company funding for non-social tariff support. However we note that in doing so it has not distinguished between funding which is specifically committed from profits and that which is being funded as a choice within cost-to-serve allowances, and so paid for by customers. In the interests of transparency we would welcome Ofwat being clear about this in the final determination, and ensuring company commitments can be compared and tracked on a like-for-like basis.

Costs and financing

Cost efficiency challenge

Ofwat reduced UU's proposed totex by £2.4bn, to £12bn. This includes around £400 million of additional wastewater enhancement expenditure added to the plan since October 2023¹⁵. CCW expects Ofwat to remove any poorly evidenced expenditure, inefficient costs and any proposed activities that have been funded previously.

However, the efficient base expenditure allowance in UU's draft determination totals £7.0 billion, which is 1% more than the company requested¹⁶ in its PR24 business plan. It is important that UU has enough revenue to ensure no fall in the day-to-day standards of service it delivers and that costs are allocated correctly between base and enhancement.

Ofwat has adjusted the average 'pay as you' go rate' for UU to 46%¹⁷ (compared to 34% proposed in the business plan¹⁸). We don't support this adjustment because as much of the investment delivers benefits in the long term, 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 energy) 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.

¹⁵ [PR24-draft-determinations-Expenditure-allowances-to-upload.pdf \(ofwat.gov.uk\)](#) page 68

¹⁶ [PR24-draft-determinations-Expenditure-allowances-to-upload.pdf \(ofwat.gov.uk\)](#) page 1

¹⁷ <https://www.ofwat.gov.uk/wp-content/uploads/2024/08/Key-Dataset-2-V3.xlsx> tab R11

¹⁸ [uuw93_business_plan_data_tables_march_24_updated.xlsx \(live.com\)](#) tab R11

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)¹⁹. 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.

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 companies²⁰, as well as reflecting market conditions.

It is in this context that we support the reduction of notional gearing to 55%²¹ 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 assumed²².

¹⁹ Page 9: [PR24-draft-determinations-Aligning-Risk-and-Return-Allowed-Return-Appendix.pdf \(ofwat.gov.uk\)](#)

²⁰ Page 16 of [Ofwat's Financial Resilience Monitoring Report 2022-23](#) shows 11 companies are above the notional gearing level.

²¹ Page 7: [PR24-draft-determinations-Aligning-Risk-and-Return-Allowed-Return-Appendix.pdf \(ofwat.gov.uk\)](#)

²² For example, the financing windfalls highlighted in the National Audit Office review of economic regulation in the water sector (2015) see [here](#)

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

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 environment²³.

Companies will need to raise new equity and we agree that there are potential benefits to customers if companies have an equity listing²⁴, 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.

Gearing Outperformance Sharing Mechanism

We are disappointed that Ofwat has withdrawn the Gearing Outperformance Sharing Mechanism in its Draft Determinations²⁵. 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 gearing²⁶.

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 sharing rates

²³ Page 71: [PR24-draft-determinations-Aligning-Risk-and-Return-Allowed-Return-Appendix.pdf \(ofwat.gov.uk\)](#)

²⁴ In the same way that FTSE index companies have listed equity

²⁵ [PR24-draft-determinations-Aligning-Risk-and-Return-Appendix-1.pdf \(ofwat.gov.uk\)](#) page 68

²⁶ Confirmed in separate correspondence from Ofwat to CCW.

We accept Ofwat's decision for UU's standard cost sharing rate of 50/50 for any future out- or under-performance, given the company's 'standard' categorisation in Ofwat's quality assessment of the business plan.

Customer influence

Outside of the brief mention within the quality assessment summary there is little explanation of the extent to which Ofwat has assessed the level of 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 that 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 YourVoice 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.*"²⁷

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

²⁷ [Ofwat PR24 and beyond Customer engagement policy – a position paper February 2022 Page 11](#)

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.

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 reports²⁸ 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

²⁸ [Household customer complaints report 2023 - CCW](#)

a full picture is possible of company performance. After a shadow period, we first published this information in our 2023 complaints report²⁹. By the start of the 2025 period, we will have three years 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.

²⁹ [Household customer complaints report 2023 - CCW](#)

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

We recognise that the environment and drinking water quality programmes are driven by legislation, but we have seen from UU's customer engagement and the research to test the business plan that customers broadly want to see the improvements these programmes should deliver³⁰.

The statutory programmes account for the majority of the company's proposed enhancement costs, with £975m discretionary spend³¹ proposed to increase asset resilience and smart meter roll-out, which the company's evidence shows customers support.

Environment programme

The business plan is consistent with many areas of Water Industry National Environment Plan (WINEP) including consideration of alternative options and catchment and nature-based solutions.

Under its 2025-30 WINEP, UU needs to deliver reductions of phosphorus pollution in rivers and reduce pollution incidents and invest £1.8bn million to reduce storm overflow spills³².

³⁰ [UUW03 Chapter 3 Customers and communities shape our business plan \(unitedutilities.com\)](#) page 74

³¹ <https://www.ofwat.gov.uk/wp-content/uploads/2024/08/Key-Dataset-2-V3.xlsx> water and wastewater allowance tabs

³² Page 8: [Overview-of-United-Utilities-PR24-draft-determination.pdf \(ofwat.gov.uk\)](#)

The WINEP has been subject to some strong cost efficiency challenges from Ofwat. For example, the wastewater enhancement expenditure allowance of £4.5 billion, which will deliver much of the WINEP, is 32% less than requested by United Utilities³³.

We agree that investment of this scale should only be allowed if a company has sound evidence to support the solutions to be delivered and efficient costs.

UU has been asked to provide additional evidence for its business plan proposals as Ofwat have assessed that its schemes are generally inefficient compared to other companies. CCW agrees that should provide stronger cost evidence to justify the costs of its customer-supported investment.

Storm overflows

We support UU's target to reduce the average number of spills per overflow to 26.2 per annum and it has provided evidence to support this performance level. Although this is higher than the average 20 spills, this figure takes into account that United Utilities has a significantly higher of combined sewers as well as higher than average rainfall and is supported by hydraulic modelling.

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.

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. UU must commit to publishing its prioritisation plans for how it will deliver work to address storm overflows.

To enable this, the company needs to address any 'gaps' in its evidence³⁴ 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.

We support 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

³³ <https://www.ofwat.gov.uk/regulated-companies/price-review/2024-price-review/draft-determinations-models/>

³⁴ The EA's Reasons for not achieving Good (RNAG) data may provide such evidence.

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 maintenance³⁵.

Nature based solutions

We welcome increased allowances for the company to use nature based approaches to some of the solutions needed to improve environmental standards and reduce pollution³⁶. Our research shows that customers broadly support nature based solutions as they can be more sustainable in the long term³⁷.

Our recent research³⁸ 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 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 the £189m investment to address drinking water taste, odour and appearance issues for customers³⁹. We accept that the company has not provided sufficient evidence to justify its proposed relining of the Vyrnwy aqueduct at this stage.

We support the 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 in properties and private supply pipes. This should be a good basis for making further significant progress in PR29.

The other allowances under the drinking water quality programme, 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.

³⁵ [Event Duration Monitoring - Storm Overflows - Annual Returns - data.gov.uk](#) (see table 5 2022 EDM Storm Overflow Annual Return

³⁶ [Overview-of-United-Utilities-PR24-draft-determination.pdf \(ofwat.gov.uk\)](#) page 8

³⁷ [Keen to go Green? Customer preferences and priorities for waste water solutions - CCW](#)

³⁸ [Customer Spotlight: People's views and experiences of water 2024 - CCW](#)

³⁹ [Overview-of-United-Utilities-PR24-draft-determination.pdf \(ofwat.gov.uk\)](#) page 11

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. In this context we support the £57m investment in reservoir safety. We welcome Ofwat's assurance that some costs for this were included in earlier base cost allowances and 'double counting' has been avoided for this allowance.

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.

Customer protections

We support the combination of Performance Commitment penalties, Price Control Deliverables and other protections in place to remunerate customers in the event of failure or delay in delivering.

Similarly, we support the 'gated' approach to funding four schemes to ensure customers do not pay a disproportionate cost up front for long term solutions⁴⁰.

Water resources and demand management

Customers placed a high priority on the reliability and resilience of water supplies in the customer engagement UU carried out to inform its business plan, so we support the £461 million allowed to invest in its water resources over 2025-30⁴¹. This will include exploring boreholes to provide new water sources as well as continued protection of current supplies.

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.

We support the challenge to UU to deliver leakage reduction and reduce the demand for water used by businesses by 8% and households by 5% over 2025-30⁴².

⁴⁰ [PR24-draft-determinations-Expenditure-allowances-to-upload.pdf \(ofwat.gov.uk\)](#) page 179

⁴¹ Page 10: [Overview-of-United-Utilities-PR24-draft-determination.pdf \(ofwat.gov.uk\)](#)

⁴² Page 10: [Overview-of-United-Utilities-PR24-draft-determination.pdf \(ofwat.gov.uk\)](#)

We also support the allowance of project management costs for the construction of the Haweswater Aqueduct Resilience Programme (HARP)⁴³ as it reflects a customer priority for water supply resilience.⁴⁴

Water Resource Management Plan

While UU is currently not in a water-stressed area, company research shows that customers place a priority on the security of their supplies. In this context, we support the twin track approach in the WRMP of increasing and maximising availability of water supplies, whilst 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.

Smart meters

We wish to see further clarity about the £231 million allowance installing 900,000 smart meters to help reduce household and business demand, and the expectations this investment implies for leakage reduction and tariff development⁴⁵.

While 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, more detail is required to show how this will be rolled out, as the Draft Determination shows that Ofwat has challenged the company's proposed costs but not how the programme will be prioritised and delivered.

We have called for universal smart metering for businesses to give customers better information and control over their usage. 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

⁴³ Page 10: [Overview-of-United-Utilities-PR24-draft-determination.pdf \(ofwat.gov.uk\)](#)

⁴⁴ [UUW03 Chapter 3 Customers and communities shape our business plan \(unitedutilities.com\)](#) page 66

⁴⁵ Page 10: [Overview-of-United-Utilities-PR24-draft-determination.pdf \(ofwat.gov.uk\)](#)

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 location. 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 consultations⁴⁶.

Performance Commitments and Outcome Delivery Incentives

Performance Commitments (PCs) need 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 targets⁴⁷ to deliver more stretching improvements at a more efficient cost than it proposed in areas we highlighted in our assessment of the business plan.

Bespoke Performance Commitments

Ofwat has accepted two of UU's bespoke PCs⁴⁸. However, it believes that UU's proposed target for the Windermere PC is potentially low, judging from the total phosphorus entering Windermere from different sources.

Depending on UU's response to the Draft Determination, Ofwat may propose a more stretching PC in consultation with the Environment Agency. We support this if the revised evidence justifies this as customers have shown support for the wonderful Windermere PC.

Customers have also supported the supplementary bespoke PC to measure greenhouse gases beyond the common measure⁴⁹.

⁴⁶ Our latest response is here - [CCW response to Scoping the Water Efficiency Fund: Second Ofwat Consultation - CCW](#)

⁴⁷ Specifically internal sewer flooding , PCC, total pollution and unplanned outages

⁴⁸ Wonderful Windermere and Embedded greenhouse gas emissions

⁴⁹ [UUW03 Chapter 3 Customers and communities shape our business plan \(unitedutilities.com\)](#) page 74

Improving water bill affordability for socially important non-household community groups - which did receive customer support - has been rejected by Ofwat. We would have welcomed the introduction of this as customer research showed that supporting these groups was important to customers.

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

Leakage

Leakage reduction is a customer priority. As such we welcome 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.

The scale of investment to reduce leakage is higher at PR24 than it was at PR19, so there needs to be clear correlation between the allowance given and the level of ambition in the company's leakage reduction PC.

Sewer flooding

The absolute target of 13% reduction applied to the internal sewer flooding PC is lower than the equivalent target set at PR19, which 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 CCW⁵⁰ 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.⁵¹

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

⁵⁰ [Customer experiences of sewer flooding - CCW](#)

⁵¹ [Discover Water website](#)

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 business water demand in the Environment Act water demand reduction target.

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 10% for business demand by the end of the AMP⁵² compared with 2019/20 baseline. Defra expects an overall reduction in business usage of 9% by so we agree that UU is sufficiently incentivised to meet the Defra target.

Drinking Water Quality customer contacts

We are aware that 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, it may lead to companies discouraging customer contacts.

However, 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.

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

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.

⁵² <https://www.ofwat.gov.uk/wp-content/uploads/2024/08/Key-Dataset-1-V4.xlsb>

- The top-down approach to setting rates with alignment to evidence of customer valuations of levels of priority for different areas of service. This means the eight PCs that more directly affect customers⁵³ 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.

We do not support the use of enhanced ODI rates for six PCs⁵⁴ to provide additional outperformance payments to higher performing companies. Even with the aggregate sharing mechanism in place, customer will still be asked to pay higher rewards than under 'standard' rates in this scenario.

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.

Long term context

Although the Draft Determinations mention the importance of long-term challenges, there is no real plans outlining how this will be achieved. Companies have been required to position their near-term plans in the context of a 25-year delivery strategy. It is disappointing that this has not been given more consideration apart from major projects.

⁵³ 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).

⁵⁴ Water supply interruptions; leakage; per capita consumption (PCC); internal sewer flooding; external sewer flooding; and total pollution incidents

Enquiries

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