



The voice for water consumers
Llais defnyddwyr dŵr

CCW's response to Ofwat's 2025-30 Draft Price Determination for Northumbrian 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 Northumbrian Water and Essex and Suffolk Water.

2. Executive Summary

Overall view

In the main, we support Ofwat's Draft Determination for Northumbrian Water.

Overall, to deliver its performance commitments and legal obligations, Ofwat's draft decision provides Northumbrian Water with a total expenditure allowance of £5.7 billion over the 2025-30 period which is £412 million / 7% lower than the company requested¹.

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.

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 Northumbrian Water deliver the commitments in its price determination. Northumbrian Water must also demonstrate to customers that the outcomes they see are tangibly better than now in terms of service performance and environmental improvements.

¹ Page 4: [Overview of Northumbrian Water's PR24 draft determination - Ofwat](#)

Customer trust in the sector has declined in CCW's annual Water Matters surveys², and Ofwat's recent research³ 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 environment⁴.

The outputs of PR24 must be a strong lever for Northumbrian 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

- Average bill increase for household bills of £45 from 2024-25 to 2029-30 (£11 less than the company requested)⁵ will put them as the water and wastewater company with the lowest average bill in England and Wales.
- We are supportive of the affordability plan that Northumbrian Water has put in place and their commitment to end water poverty which will see no customer spending more than 5% of their income on water and wastewater bills by 2030.

² [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.

³ [Wave Five of Ofwat's Cost of Living research](#) (undertaken in March)

⁴ [Customer Spotlight: People's views and experiences of water 2024 - CCW](#)

- We support Ofwat’s intervention to reduce the speed at which Northumbrian Water recovers costs over time. This will help to manage bill profiles and affordability challenges in the short term.
- 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%⁶ as higher leveraged capital structures have risks for customers.
- The move to encourage more companies to have an equity listing⁷, as it allows for greater transparency and governance in the company’s financial structure.
- 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.

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

- Northumbrian Water customers will experience a varying bill profile, with a spiked increase in the first year followed by a drop in the second year and higher increases again in years four and five. This has potential to cause greater affordability pressure for their customers at the

⁶ Page 7: [PR24-draft-determinations-Aligning-Risk-and-Return-Allowed-Return-Appendix.pdf \(ofwat.gov.uk\)](https://www.ofwat.gov.uk/publication/pr24-draft-determinations-aligning-risk-and-return-allowed-return-appendix)<https://www.ofwat.gov.uk/publication/pr24-draft-determinations-aligning-risk-and-return-allowed-return-appendix>

⁷ In the same way that FTSE index companies have listed equity

start of this price determination period. Customers support a smooth bill profile and we want to see this change made.

- In our response to the company's submitted business plan, we expressed concern that the company expected to lift circa 100,000 customers out of water poverty by reducing their bills through applying water efficiency measures alone. We asked Ofwat to scrutinise if this was achievable but have not found any evidence in the published documentation that demonstrates that Ofwat has done this. We want to see evidence that Ofwat has considered this.
- We are disappointed to see Ofwat decrease the ambition of performance commitment levels for water supply interruptions

Although customers placed this as a lower priority, the company had proposed to go further than the targets set by Ofwat in this Draft Determination. Northumbrian's ambitions for this PC should be upheld in the Final Determinations.

- 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 Northumbrian'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 Northumbrian tested its business plan in 2023, it revealed only 14% of customers found the plan affordable, while 72% found the package of improvements acceptable⁸.

The current research we are undertaking will show whether the interventions Ofwat has made to increase the ambition of what Northumbrian Water 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 early September 2024, as the results are not available in time for inclusion in this consultation response.

⁸ Page 141 NWL [Affordability and acceptability quantitative research](#)

Bill profile

The Draft Determination proposes an increase of 11% on the average combined water and wastewater from 2024-5 to 2029-30. This increases to 20% over 2025-30 when forecast inflation is taken into account⁹.

This is lower than the increase proposed by Northumbrian in its revised Business Plan from spring 2024.

This would mean an average bill increase for household bills of £45 from 2024-25 to 2029-30 (£11 less than the company requested)¹⁰. This will put them as the water and wastewater company with the lowest average bill in England and Wales.

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.

For Northumbrian Water, customers will experience a varying bill profile, with a spiked increase in the first year followed by a drop in the second year and higher increases again in years four and five.

This has potential to cause greater affordability pressure for their customers at the start of this price determination period. We know that from the engagement¹¹ Northumbrian Water carried out with its customers for its business plan that they have a preference for a smooth bill profile and we would like this to see this change made.

Affordability support

Northumbrian plans to increase social tariff provision from 4% of households in 2020-25 to 12% in 2025-30. Northumbrian Water's shareholders commit to contribute £15.9 million towards social tariffs, £4.2 million to hardship funds and £13.1 million matching payments made by customers repaying debts¹².

We are supportive of the affordability plan that Northumbrian Water has put in place and their commitment to end water poverty which will see no customer spending more than 5% of their income on water and wastewater bills by 2030.

⁹ Based on Office of Budget Responsibility economic forecast March 2024

¹⁰ Page 3: [Overview-of-Northumbrian-Waters-PR24-draft-determination.pdf \(ofwat.gov.uk\)](#)

¹¹ Page 70: [NWL deliberative research into complex bill drivers](#)

¹² Page 10 <https://www.ofwat.gov.uk/wp-content/uploads/2024/07/Overview-of-Northumbrian-Waters-PR24-draft-determination.pdf>

However, in our response to the company's submitted business plan, we expressed concern that the company expected to lift circa 100,000 customers out of water poverty by reducing their bills through applying water efficiency measures alone. We asked Ofwat to scrutinise whether this was achievable but have not found any evidence in the published documentation to demonstrate that Ofwat have done this.

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 Northumbrian's proposed totex by 7% (£412m) to £5.7bn¹³. As confirmed in the section above on 'bill profile', we expect Ofwat to remove any poorly evidenced expenditure, inefficient costs and any proposed activities that have been funded previously.

In its draft decision, Ofwat has intervened¹⁴ to reduce the speed at which Northumbrian recovers costs over time. This means that Northumbrian will recoup more costs from customers in future periods and is a fairer reflection of the benefits those customers will enjoy. This small extension in the time over which the investment is recovered from customers will also help to manage bill profiles and affordability challenges in the short term. 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 energy) in what is a volatile wholesale energy market. Ofwat's

¹³ Page 2 <https://www.ofwat.gov.uk/wp-content/uploads/2024/07/Overview-of-Northumbrian-Waters-PR24-draft-determination.pdf>

¹⁴ Page 12 <https://www.ofwat.gov.uk/wp-content/uploads/2024/07/Overview-of-Northumbrian-Waters-PR24-draft-determination.pdf>

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)¹⁵. 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 companies¹⁶, as well as reflecting market conditions.

It is in this context that we support the reduction of notional gearing to 55%¹⁷ 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.

¹⁵ Page 9: [PR24-draft-determinations-Aligning-Risk-and-Return-Allowed-Return-Appendix.pdf \(ofwat.gov.uk\)](#)

¹⁶ As per [Ofwat's 2022-23 Financial Resilience Monitoring report](#) (page 16), 11 companies are above Ofwat's notional gearing level

¹⁷ Page 7: [PR24-draft-determinations-Aligning-Risk-and-Return-Allowed-Return-Appendix.pdf \(ofwat.gov.uk\)](#)

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 assumed¹⁸.

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 environment¹⁹.

Companies will need to raise new equity and we agree that there are potential benefits to customers if companies have an equity listing²⁰, 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 Determinations²¹. 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.

¹⁸ For example, the financing windfalls highlighted in the National Audit Office review of economic regulation I the water sector (2015) see [here](#)

¹⁹ Page 71: [PR24-draft-determinations-Aligning-Risk-and-Return-Allowed-Return-Appendix.pdf \(ofwat.gov.uk\)](#)

²⁰ In the same way that FTSE index companies have listed equity

²¹ [PR24-draft-determinations-Aligning-Risk-and-Return-Appendix-1.pdf \(ofwat.gov.uk\)](#) page 68

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 gearing²².

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

We accept Northumbrian's standard cost sharing rate of 50/50 for any future out- or underperformance, 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* document²³ 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 commitment²⁴.

There is also a line in Your Water Your Say report²⁵ that suggests that a larger suite of evidence has been considered "Evidence from 'Your water, your say' survey 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.

²² Confirmed in separate correspondence from Ofwat to CCW.

²³ Page 4 <https://www.ofwat.gov.uk/wp-content/uploads/2024/07/PR24-draft-determinations-Northumbrian-Water-Quality-and-ambition-assessment-appendix.pdf>

²⁴ Page11 <https://www.ofwat.gov.uk/wp-content/uploads/2024/07/PR24-draft-determinations-Delivering-outcomes-for-customers-and-the-environment-1.pdf>

²⁵ <https://www.ofwat.gov.uk/wp-content/uploads/2024/07/Your-Water-Your-Say-survey-findings-of-water-companies-business-plans-1.pdf>

Ofwat's comments on Northumbrian Water's specific engagement is limited to four lines, stating that it is "*broadly in line with our minimum expectations*" but commenting that while research materials were published some could have been more neutral²⁶.

Given the scale of research and engagement that took place to inform the company's business plan, including the work of the Customer Engagement Panel 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.*"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 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.

²⁶ Page 4 <https://www.ofwat.gov.uk/wp-content/uploads/2024/07/PR24-draft-determinations-Northumbrian-Water-Quality-and-ambition-assessment-appendix.pdf>

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

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 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.

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

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

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 £1.5bn environment programmes is driven by legislation, but we have seen from Northumbrian's customer engagement and the research to test the business plan that customers broadly want to see the improvements this programme should deliver³⁰.

Northumbrian Water's Water Industry National Environmental Programme (WINEP) core plan has an alternative approach to total nitrogen nutrient neutrality actions under the Levelling Up and Regeneration Act, which is currently being considered by Defra. Customers support alternative approaches that benefit the environment and we would like to see these approaches permitted.

Storm overflows

The Draft Determination raises minor concerns about the business plan's consistency with achievement of the high-priority overflows target (75% tackled by 2035) given the high proportion that will need to be delivered in 2030-35 (16% in 2025-30 would require 58% in 2030-35)³¹. We agree and are supportive of the amended PC target to require the company to do more on this in 2025-2030.

As the performance commitment to track the reduction of storm overflow spills does not include a measure of the harm caused by spills, we want to see assurance from the company that in its delivery of the storm overflow reduction programme it is prioritising 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. Northumbrian should commit to publishing its prioritisation plans to show how and when they will address storm overflows.

To enable this, the company needs to address any 'gaps' in its evidence³² 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.

³⁰ [Northumbrian Water Affordability and Acceptability research](#)

³¹ Page 6: [PR24-draft-determinations-Northumbrian-Water-Quality-and-ambition-assessment-appendix.pdf \(ofwat.gov.uk\)](#)

³² The EA's Reasons for not achieving Good (RNAG) data may provide such evidence.

We support the requirement for companies to report data on when event duration monitors are working, 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 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 maintenance³³.

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.

Nature based solutions

We welcome increased allowances for the company to use nature based and partnership approaches to some of the solutions needed to improve environmental standards and reduce pollution. Our research shows that customers broadly support nature based solutions as they can be more sustainable in the long term³⁴.

Our recent research³⁵ 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 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.

³³ [Event Duration Monitoring - Storm Overflows - Annual Returns - data.gov.uk](#) (see table 5 2022 EDM Storm Overflow Annual Return

³⁴ [Keen to go Green? Customer preferences and priorities for waste water solutions - CCW](#)

³⁵ [Customer Spotlight: People's views and experiences of water 2024 - CCW](#)

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.

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.

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.

However this has meant that some customer supported investment proposals have been delayed, reduced or cut, so we remain concerned that some issues such as, asset health – civil structures on treatment works³⁶ 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.

Mains renewal

The Draft Determination allows Northumbrian expenditure to increase the water main renewals rate from 0.20% to 0.43% over 2025-30³⁷. The allowance includes a cost adjustment for asset health. This allowance should be used solely to target the worst condition mains, i.e. those with the highest burst rate, defined as condition grade 4 (poor) and 5 (very poor) mains.

³⁶ [nes35.pdf \(nwg.co.uk\)](#)

³⁷ Table 6: <https://www.ofwat.gov.uk/wp-content/uploads/2024/07/PR24-draft-determinations-Expenditure-allowances-to-upload.pdf>

We also support the customer protections Ofwat has applied to ensure costs are efficient and the PCDs and other mechanisms in place to return money to customers in the event of failure or delay.

Net zero

Companies in England made a public commitment to achieve net zero carbon emissions by 2030³⁸. Companies tell us that this is not achievable under allowances in the draft determination, but the net zero commitment is still in the public domain. If this pledge is no longer achievable³⁹, 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 (WRMP)

Customers placed a high priority⁴⁰ on the reliability and resilience of water supplies in the customer engagement Northumbrian carried out to inform its business plan, so we support the £656 million⁴¹ allowed to invest in its water resources over 2025-30.

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 Northumbrian to deliver:

- An extra 25 million litres of water a day by 2030. Northumbrian will increase its ability to source and deliver water through transfer and storage schemes. The Essex and Suffolk regions of the company are areas of extreme water scarcity.
- A new raw water pipeline from Abberton reservoir to Langford Water Treatment Works
- The new Linford Water Treatment works and borehole in Essex and Suffolk Region
- Early stage delivery of a new reservoir at North Suffolk
- The use of innovative technology (such as 'find and fix' resources) used by leakage technicians to find smaller leaks quickly

Whilst the Northumbria region of the company is not in water scarcity, the Regulators' Alliance for Progressing Infrastructure Development (RAPID) has asked the company to continue to investigate the feasibility of export options for transferring a large amount of water from Kielder reservoir in Northumbria to United Utilities.

³⁸ [Water industry reaffirms pledge to work in the public interest | Water UK](#)

³⁹ Northumbrian's business plan says it, 'remains on track to achieve net zero by 2050' : [nes01.pdf \(nwg.co.uk\)](#) page 18

⁴⁰ Pages 47 & 23 [nes01.pdf \(nwg.co.uk\)](#)

⁴¹ Page 2 [Overview-of-Northumbrian-Waters-PR24-draft-determination.pdf \(ofwat.gov.uk\)](#)

As such, funding has been allowed for the company to do this under RAPID's gated process which is designed to allow all feasible options for producing and sharing new sources of supply to be explored by participating companies.

Ofwat's proposed funding means that Northumbrian Water customers will be paying for 50% of the costs of these investigations. While the benefit in terms of security of supply benefits United Utilities customers, the PR24 methodology also provides for benefits to customers in areas exporting water. So in this case, customers of Northumbrian Water will receive a 50% share of the economic profit calculated for any trade, which therefore benefits those customers too.

We expect transparency and clarity of how customers in both company areas will benefit as the project develops. If transfers are to be used successfully in the future, the customers in the exporting areas will need to understand there is a benefit to them too.

Water Resource Management Plan

Company research⁴² shows that customers place a priority on the security of their supplies. So CCW is pleased to see the company's business plan was broadly consistent with the WRMP, except for some Ofwat interventions on leakage, metering and water efficiency activities, where the changes should deliver greater benefits for customers (including lower costs).

There are some inconsistencies between leakage and per capital consumption data trends in the business plan submission and the WRMP. This raises minor concerns with the accuracy of the company's long-term forecasts. We expect this to be resolved in the final determination.

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.

⁴² Page 6: <https://www.nwg.co.uk/globalassets/research-library/people-panels/people-panels-3---aims-and-measures---may-2022.pdf>

The Draft Determination raises concerns about the presented forecast growth in business demand by the company, as while it meets the Defra target of 9% by 2037-38, it has excluded new business demand growth. Ofwat has therefore set a target of 14%.

Smart meters

We wish to see further clarity about the £111 million spend on smart metering to help reduce household demand by 7% and business demand by 14%⁴³. In its Essex and Suffolk region, which is classified as seriously water stressed, Northumbrian Water will introduce compulsory metering with the installation of almost 88,000 smart meters for households.

However, the Draft Determination does not expand on what this investment implies for leakage reduction and tariff development. We would like to see further clarity on this in the Final Determinations.

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 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 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 consultations⁴⁴.

⁴³ Page 8 [Overview-of-Northumbrian-Waters-PR24-draft-determination.pdf \(ofwat.gov.uk\)](#)

⁴⁴ Our latest response is here - [CCW response to Scoping the Water Efficiency Fund: Second Ofwat Consultation - CCW](#)

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.

We support the zero target set for serious pollution incidents, as customers will expect such an improvement in return for spending and investment to prevent or reduce pollution risks.

Biodiversity was a medium priority as evidenced⁴⁵ in Northumbrian Water's business plan. We believe that the increased ambition Ofwat have applied to this performance commitment level will result in improved outcomes for customers.

We are disappointed to see the decrease in the ambition of performance commitment levels for water supply interruptions.

Although customers placed this as a lower priority, the company had proposed to go further than the targets set by Ofwat in this Draft Determination. Northumbrian's ambitions for this PCs should be upheld in the Final Determinations.

The company's current performance for supply interruptions is comparably poor⁴⁶. Given the absolute target Ofwat has applied 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.

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 high customer priority⁴⁷. 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.

⁴⁵ Page 47 <https://www.nwg.co.uk/globalassets/business-plan-2025-30/nes01.pdf>

⁴⁶ [Ofwat Service and Delivery Report 2022-23](#) page 5

⁴⁷ Page 47 <https://www.nwg.co.uk/globalassets/business-plan-2025-30/nes01.pdf>

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.

For Northumbrian the 13% absolute target for leakage reduction against the 2024-25 baseline is a welcome challenge to apply a more stretching target than proposed by the company.

Sewer flooding

Northumbrian Water's Annual Performance Report for 2023-2024⁴⁸ shows that the company met their performance commitments for internal sewer flooding, external sewer flooding and repeat sewer flooding. Their performance against the internal sewer flooding PC puts them in the upper quartile of the industry.

Sewer flooding is a high customer priority⁴⁹. It is therefore disappointing that the absolute target of 13% reduction that Ofwat has applied to the internal sewer flooding PC is lower than the equivalent target set at PR19. 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.

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 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.

⁴⁸ Page 21 [Annual Performance Report \(nwg.co.uk\)](https://www.nwg.co.uk/globalassets/annual-performance-report-2023-2024.pdf)

⁴⁹ Page 47 <https://www.nwg.co.uk/globalassets/business-plan-2025-30/nes01.pdf>

⁵⁰ [Customer experiences of sewer flooding - CCW](https://www.nwg.co.uk/globalassets/customer-experiences-of-sewer-flooding-ccw.pdf)

PCs show a reduction of 14% for business demand by the end of the AMP⁵¹ compared with 2019/20 baseline. Defra expects an overall reduction in business usage of 9% by 2037 so we are in agreement that the company is being sufficiently incentivised to meet the Defra target.

Drinking Water Quality customer contacts

Water quality contacts is a high priority⁵² for customers so we are pleased that Ofwat have proposed an additional stretch to the target. 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.
- 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.

⁵¹ <https://www.ofwat.gov.uk/wp-content/uploads/2024/08/Key-Dataset-1-V4.xlsx>

⁵² Page 47 <https://www.nwg.co.uk/globalassets/business-plan-2025-30/nes01.pdf>

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).

- 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, customers will still be asked to pay more for higher rewards than under rather '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

The five-year package of investment and PC targets should act as a milestone towards delivering a longer term set of outcomes.

The £5.7 billion allowed in this price period has been considered in line with Ofwat's requirement⁵⁵ for companies to position their near-term plans in the context of a 25-year delivery strategy.

Northumbrian Water's long-term strategy⁵⁶ met Ofwat's minimum expectation. We are pleased that Northumbrian Water had set out core and alternative pathways in line with Ofwat's guidance.

However this price control period has 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 from ODIs, delivery cost mechanisms and energy cost adjustments.

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

⁵⁵ Page 4 <https://www.ofwat.gov.uk/wp-content/uploads/2024/07/Overview-of-Northumbrian-Waters-PR24-draft-determination.pdf>

⁵⁶ <https://www.nwg.co.uk/globalassets/business-plan-2025-30/nesltds.pdf>

We are concerned about this as this implies there could be further affordability concerns for customers within this price period.

Enquiries

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