



The voice for water consumers
Llais defnyddwyr dŵr

**CCW's response to
Ofwat's 2025-30 Draft Price Determination
for Pennon Group (South West Water,
Bournemouth Water and Bristol 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 Pennon Group.

To note, throughout this response, we refer to the group of companies (South West Water, Bournemouth Water and Bristol Water) as Pennon Group unless a region needs to be specified.

2. Executive Summary

Overall view

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. However, the scale of the environmental enhancement investment is large and may be challenging to deliver. We would not want to see lower quality delivery, or grey schemes at the expense of blue or green ones, and will be interested to see how the company responds to the challenge set by the regulator.

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 Pennon delivers 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.

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

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](#)

strong driver for Pennon Group 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

- We welcome the Draft Determination for the Pennon Group. No projects or schemes have been stripped from the plan, so customers will still see the group deliver the outcomes it set out in its Business Plan, which were supported by customers.
- Some customer key priorities have been addressed within the Draft Determinations (safe reliable drinking water, leaks, and environmental protection).
- 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%⁴ as higher leveraged capital structures have risks for customers.
- 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

- The current bill profile is loaded to have most impact in year two. 78% of Pennon customers wanted an increase in bills to start sooner⁵, and not be put off for future generations. However, the company explains its priorities research found 59% of customers “consider a steady programme of investment to be preferable to front- or back-end loaded programmes. Amongst those with the lowest incomes, 50% prefer a smooth programme, 25% front ended and 25% back ended”⁶. We would like the Final Determination to explain why this profile is needed for investment or to smooth it.
- Bill increases will increase the number of customers struggling to pay. Despite this the Business Plan and the Draft Determination allow for an increase in financial support which the company believes will be sufficient to eradicate water poverty in its operating areas. We welcome this but would like Ofwat to push the company to contribute funding from profits into funding the social tariff, rather than relying only on customer cross subsidy.

Aligned Performance Commitment (PC) targets mean some of what Pennon Group (SWB) is being asked to do is less ambitious than the targets it set itself in the business plan, such as supply interruptions and internal sewer flooding incidents. We would like to see the Final Determination make clear why Ofwat felt absolute PC targets were more appropriate than allowing a relative one.

- 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

⁴ Page 7: [PR24-draft-determinations-Aligning-Risk-and-Return-Allowed-Return-Appendix.pdf \(ofwat.gov.uk\)](#)

⁵ [addressing-affordability-and-delivering-for-customers.pdf \(southwestwater.co.uk\)](#) p16

⁶ [what-we-have-heard-from-customers-and-communities.pdf \(southwestwater.co.uk\)](#) p80

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 Pennon'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 Pennon tested its business plan in 2023, it revealed, when considering the overall plan (both water and sewerage elements)⁷:

- Only 21% of South West customers (16% household, 34% non-household) found the plan affordable, while 67% found it acceptable (64% household, 72% non-household)
- Only 21% of Bristol Water customers (17% household, 31% non-household) found the plan affordable, while 77% found it acceptable (76% household, 82% non-household)
- Only 26% of Bournemouth Water customers (18% household, 45% non-household) found the plan affordable, while 79% found it acceptable (76% household, 85% non-household)

The current research we are undertaking will show whether the interventions Ofwat has made to increase the ambition of what Pennon need 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

For the whole Pennon Group, the Draft Determination proposes an increase of 13% on the average combined water and wastewater bill from 2024-25 to 2029-30⁸. This increases to 23% over 2025-30 when forecast inflation is taken into account⁹.

On average, combined bills will be £64 more a year by 2029-30 than they are in 2024-25¹⁰. Ofwat's determination has reduced the amount of the increase:

- South West Water customers will see a decrease of £35 compared to the Business Plan on their water and sewerage bill¹¹

⁷ [AAT Quantitative Research Report September 2023](#), slide 7

⁸ [Overview-of-South-West-Waters-PR24-draft-determination.pdf \(ofwat.gov.uk\)](#), p5, figure 1.1

⁹ Based on Office of Budget Responsibility economic forecast March 2024

¹⁰ [Ofwat sets out record £88 billion upgrade to deliver cleaner rivers and seas, and better services for customers - Ofwat](#)

¹¹ [Ofwat sets out record £88 billion upgrade to deliver cleaner rivers and seas, and better services for customers - Ofwat](#) and [Key facts and data from water company plans - Ofwat](#)

- Bristol Water customers will see an increase £27 lower than the Business Plan indicated to their water bill
- Bournemouth Water customers will see an increase £21 lower than the Business Plan indicated to their water bill

This is substantially lower than the 20% (before inflation)¹² increase proposed by Pennon in its revised Business Plan from spring 2024.

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.

However, the bill profile for water indicates a steep price increase in year two of the period (as Bristol Water customers seem to see a substantial cut in bills from 2024-25 to 2025-26), before a smoother bill profile for the remaining years to March 2030.

Pennon Group's priorities research showed customer felt steady investment was preferable to front- or back-end loading¹³. The current profile recognises the need for investment early in the period to bring about improvement in things customers consider priority, but will create more pressure on those who are currently just about managing their water bills. If Ofwat supports the front-loaded bill profile to facilitate investment, then affordability support for customers becomes all the more important. Ofwat should be clear in why it supports this bill profile despite it being against customer preference.

Affordability support

Pennon Group's testing of its plan showed 16% of South West Water, 17% Bristol Water and 18% of Bournemouth household customers found it affordable¹⁴.

In this context, we fully support Pennon Group's commitment to have no customers in water poverty by 2030, noting that it is close to achieving this commitment already. The price rises will put more customers into water poverty, so this commitment is much needed.

The company plans to increase social tariff provision from 3% to 5%¹⁵, with Pennon Group estimating over 100,000 customers¹⁶ being on a support tariff by 2030. Innovative tariffs and smart meters may also help some customers out of water poverty. Ofwat's efficiencies identified in its

¹² [Key facts and data from water company plans - Ofwat](#)

¹³ [what-we-have-heard-from-customers-and-communities.pdf \(southwestwater.co.uk\)](#), p60 & p80.

¹⁴ [AAT Quantitative Research Report September 2023](#)

¹⁵ [Overview-of-South-West-Waters-PR24-draft-determination.pdf \(ofwat.gov.uk\)](#) – page 14

¹⁶ [business-plan-2025-30.pdf \(southwestwater.co.uk\)](#) page 62

Draft Determination lower the average customer bill so will also help towards this, which we welcome.

However CCW is disappointed that the company is not contributing to the funding of its social tariff scheme. We believe companies should make such contributions which would reduce the cross subsidy paid by customers not in financial hardship.

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

Overall, Ofwat has reduced Pennon's proposed totex by £410 million, 8.8%¹⁷. This consists of £3.6 billion totex for South West Water (£258 million, 6.7%, lower than requested) and £649 million totex for Bristol Water (£152 million, 19%, lower than requested). CCW expects Ofwat to remove any poorly evidenced expenditure, inefficient costs and any proposed activities that have been funded previously.

However, Ofwat considered Pennon Group to be over-ambitious in its day-to-day running cost efficiencies and has increased the company's base expenditure request by 5% to £2.2 billion¹⁸.

We agree it is important that all companies have sufficient funds to operate day-to-day business with no reduction on current service levels. Investment into new assets, resilience and improvements to environment and services must be challenged on efficiency so as to deliver best value for customers. Therefore we welcome Ofwat's challenge on costs following its efficiency benchmarking.

¹⁷ Calculations from figures on p6 of [Overview-of-South-West-Waters-PR24-draft-determination.pdf](https://www.ofwat.gov.uk/overviews/south-west-waters-pr24-draft-determination) ([ofwat.gov.uk](https://www.ofwat.gov.uk)). Reduction of £258m for SWB and £152m for BRL, equating to a £410m total decrease in totex, 8.8% lower than the original group request (of £3.858bn and £801mn respectively = £4.659bn).

¹⁸ <https://www.ofwat.gov.uk/wp-content/uploads/2024/08/Key-Dataset-2-V3.xlsb> (base cost allowances)

Ofwat notes it has reduced the speed at which Pennon Group can recover costs over time¹⁹, but in its Draft Determination has increased pay as you go (PAYG) ratio for water resources, water network plus and bioresources for South West Water and for water resources and water network plus for Bristol Water²⁰. These adjustments give the business an average PAYG rate of 42.3%²¹. Whilst recognising that spreading the costs of day-to-day as well as enhancement expenditure can help limit the affordability impacts of bill increases, research showed customers preferred a flat profile²². If there was a preference between paying now and paying later, customers preferred to pay now, as people are concerned about affordability for their children.

Cost adjustment claims

Ofwat has declined South West Water's cost adjustment claim for liming sewage and Bristol Water's cost adjustment claim for leakage. It has provisionally accepted Bristol Water's cost adjustment claim for the long-term contractual agreement with the Canal and River Trust to abstract raw water from the Gloucester and Sharpness canal.²³ We accept this decision based on Ofwat's assessment of available evidence.

At £12 million²⁴, the value of the claim feels relatively small but we welcome Ofwat's challenge to the company to better evidence that the costs are efficient. We would like to see the Final Determination clearly set out why this cost adjustment is the best-value option for customers, including if and when new water resource options in development across 2025-30 will supersede its continuation, so considering the long-term context.

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)²⁵. 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.

¹⁹ [Overview-of-South-West-Waters-PR24-draft-determination.pdf \(ofwat.gov.uk\)](#), p5

²⁰ [PR24-draft-determinations-Aligning-Risk-and-Return-Appendix-1.pdf \(ofwat.gov.uk\)](#), p74, table 14.

²¹ <https://view.officeapps.live.com/op/view.aspx?src=https%3A%2F%2Fwww.ofwat.gov.uk%2Fwp-content%2Fuploads%2F2024%2F08%2FKey-Dataset-2-V3.xlsx&wdOrigin=BROWSELINK>, tab RR11 (selecting SWb and BRL from selector tab), line 26, column J

²² [what-we-have-heard-from-customers-and-communities.pdf \(southwestwater.co.uk\)](#), p60 & p80.

²³ [PR24-draft-determinations-Total-expenditure-allowances-by-company.pdf \(ofwat.gov.uk\)](#) p29

²⁴ [PR24-draft-determinations-Total-expenditure-allowances-by-company.pdf \(ofwat.gov.uk\)](#) p29

²⁵ Page 9: [PR24-draft-determinations-Aligning-Risk-and-Return-Allowed-Return-Appendix.pdf \(ofwat.gov.uk\)](#)

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 companies²⁶, as well as reflecting market conditions.

It is in this context that we support the reduction of notional gearing to 55%²⁷ 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 assumed²⁸.

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.

²⁶ Page 16 of Ofwat's Financial Resilience Monitoring Report 2022-23 shows that 11 companies are above the notional gearing level.

²⁷ Page 7: [PR24-draft-determinations-Aligning-Risk-and-Return-Allowed-Return-Appendix.pdf \(ofwat.gov.uk\)](#)

²⁸ For example, the financing windfalls highlighted in the National Audit Office review of economic regulation in the water sector (2015) see [here](#)

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 environment²⁹.

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.

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 Ofwat's Your Water Your Say report 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 suite of evidence in the supporting published documents.

Ofwat's comments on South West Water and Bristol Water's specific engagement is set out in Table three of the quality and ambition appendix. It explains that the business has broadly met Ofwat's expectations for conducting research including affordability and acceptability testing, has paid heed to affordability issues and is in line with guidance on PAYG and RCV run-off. Ofwat makes no comment on how well it feels the business did in reflecting customers' views and preferences in its overarching strategy or detail of its business plan, despite the company clearly having taken care to set out four strategic pillars that reflected its customers' priorities, nor on how Ofwat itself has considered these in making its determination.

Given the scale of research and engagement that took place to inform the company's business plan, including the work of the WaterShare+ Panel and the Bristol Water Challenge Panel in pushing the company to go further, the absence of comment or reflection on how Ofwat has

²⁹ Page 71: [PR24-draft-determinations-aligning-risk-and-return-allowed-return-appendix.pdf](https://www.ofwat.gov.uk/pr24-draft-determinations-aligning-risk-and-return-allowed-return-appendix.pdf) (ofwat.gov.uk)

incorporated customer views in disappointing. We hope that the link between Ofwat's decisions and customer preferences, especially following Ofwat's own Your Water Your Say sessions, is made clearer in the final determination.

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 reports³⁰ 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

³⁰ [Household customer complaints report 2023 - CCW](#)

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 report³¹. 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.

³¹ [Household customer complaints report 2023 - CCW](#)

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

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

Operational incidents

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

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

Statutory Investment programme

Environment programme

We recognise that the environment and drinking water quality programmes are driven by legislation, but we have seen from Pennon's customer engagement and the research to test the business plan that customers broadly want to see the improvements these programmes should deliver³².

Following its efficiency challenge, we support Ofwat's allowance of £1.1 billion for the WINEP waste investment and £106 million for WINEP water investment³³.

Storm overflows

In the absence of a performance commitment to track the harm caused by storm overflow spills, we want to see a clear plan from the company which demonstrates its delivery of the storm overflow

³² [sbb_cr1.53-bp-and-It-strategy-testing.pdf \(southwestwater.co.uk\)](#), p4, key findings.

³³ [Draft determinations models - Ofwat](#) Costs from Key-data-set-2 (link towards bottom of page), water and wastewater enhancement allowances tabs

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. The company must commit to publishing its prioritisation plans to show 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 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 pollution. Our research shows that customers broadly support nature based solutions as they can be more sustainable in the long term³⁶.

Our recent research³⁷ 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.

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

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

³⁶ [Keen to go Green? Customer preferences and priorities for waste water solutions - CCW](#)

³⁷ [Customer Spotlight: People's views and experiences of water 2024 - CCW](#)

One of the largest efficiencies suggested by Ofwat is against nutrient and sanitary determinant nature based solutions. From our research³⁸, we know when modelling solution options for waste water treatment, the nature-based solution is the most supported (37%).

We would like to see evidence in the Final Determination that Ofwat has considered this customer preference in making its decision, and has not made efficiencies by referencing cheaper grey solutions over green or blue ones.

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

Ofwat has made substantial cuts to Pennon Group's proposed water quality improvement spend, down from £151 million to £87 million for South West Water and Bournemouth Water, and from £124 million to £70 million for Bristol Water³⁹.

We note that Ofwat mentions that its model for raw water solutions works well for smaller scale schemes but has fewer data points for those over £10 million so has deep dived larger schemes⁴⁰. As resilient water resources through healthy catchments is a key priority for Pennon Group customers⁴¹, we expect the company to reflect on Ofwat's comments and better state its case for any additional funding if appropriate. Efficiency on this matter must not result in poorer outcomes for consumers.

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.

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.

³⁸ [Keen to go Green? Customer preferences and priorities for waste water solutions - CCW](#)

³⁹ [Draft determinations models - Ofwat](#) Costs from Key-data-set-2 (link towards bottom of page), water enhancement allowances tabs

⁴⁰ [PR24-draft-determinations-Expenditure-allowances-to-upload.pdf \(ofwat.gov.uk\)](#) p106

⁴¹ [sbb_cr1.53-bp-and-lt-strategy-testing.pdf \(southwestwater.co.uk\)](#), p4, key findings

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.

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.

Discretionary investment programme

Discretionary investment is limited in this determination due to the high cost of the statutory investment programmes.

However this means some customer supported investment proposals - such as the Isles of Scilly first-time sewerage programme⁴² - have seen significant budget cuts so 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 Pennon expenditure to increase the water main renewals rate from 0.05% to 0.30% for South West and from 0.28% to 0.33% (with adjustments giving an overall renewal rate of 0.66%) for Bristol Water over 2025-30⁴³. Customers will question why Pennon was allowed to build up a backlog of required asset replacement and maintenance and wonder if this is

⁴² [isles-of-scilly_l2_plan_dwmp2.pdf \(southwestwater.co.uk\)](#) p8-9.

⁴³ [PR24-draft-determinations-Expenditure-allowances-to-upload.pdf \(ofwat.gov.uk\)](#) p36, table 6.

due to a lack of investment in the past. However, as catch up is needed we support the allowance in the draft determination.

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 2030⁴⁴, which Pennon's business plan reflected.

We note that Ofwat is agreeable to Pennon's GHG emission targets increasing across the period as a result of the construction it needs to undertake⁴⁵, and that this is balanced by the bespoke commitment around embodied carbon. We are pleased that Ofwat is has allowed this bespoke commitment, so allowing the company to be held to account in working towards its net zero ambition whilst not impeding the construction it has cited as necessary for the future.

Water resources and demand management

Customers placed a high priority on the reliability and resilience of water supplies in the customer engagement Pennon carried out to inform its business plan⁴⁶. The hosepipe ban in the South West as a consequence of 2022's hot summer lasted for a year, highlighting the need for the region to increase its resilience as well as its ability to manage supply and help consumers - including tourists to the region - manage demand.

In this context, we welcome Ofwat's decision to allow Pennon Group £65 million (£62m South West and £3m Bristol)⁴⁷ to be spent on water supply resilience, whilst having challenged the company to find efficiencies of just under £13 million.

This should help protect the region from drought, build new sources of water supply, and help customers save water.

Two regions within Pennon Group's area have been declared water-scarce, so we are pleased to see Ofwat suggest stretching performance commitments for the company in reducing household and business water use.

⁴⁴ [Water industry reaffirms pledge to work in the public interest | Water UK](#)

⁴⁵ P9: [Overview-of-South-West-Waters-PR24-draft-determination.pdf \(ofwat.gov.uk\)](#)

⁴⁶ [sbb_cr1.53-bp-and-lt-strategy-testing.pdf \(southwestwater.co.uk\)](#), p4, key findings

⁴⁷ P15, [Overview-of-South-West-Waters-PR24-draft-determination.pdf \(ofwat.gov.uk\)](#)

Water Resources

Company research shows that customers place a priority on the security of their supplies⁴⁸, so we support the twin track approach of increasing and maximising availability of water supplies, whilst also reducing the demand for water through reduced consumption and leakage.

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 support smart metering for its potential to help keep water in the network by identifying leaks, allow development in charging through innovative tariffs that need better data to enable them and to help people engage with their daily water use.

We are pleased that Pennon Group will be able to invest £81 million⁴⁹ across its regions in fitting and upgrading meters. What is not clear from in the determination is Ofwat's expectations around balancing meters across household and non-household customers.

CCW wants further clarity on how the smart metering programme to help reduce household and business demand, and the expectations this investment implies for leakage reduction and tariff development.

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 in a way that benefits the areas more at risk of water scarcity first, 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 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.

⁴⁸ [sbb_cr1.53-bp-and-its-strategy-testing.pdf \(southwestwater.co.uk\)](#), p4, key findings

⁴⁹ [Overview-of-South-West-Waters-PR24-draft-determination.pdf \(ofwat.gov.uk\)](#), p11: £59m SWB, £22m BRL

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 consultations⁵⁰.

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.

Ofwat has found South West Water to have set itself challenging targets, which has enabled Ofwat to push the rest of the sector to higher targets too⁵¹ (although it felt the Bristol Water plan was less ambitious). Despite this, Ofwat has challenged the company's PC targets to deliver more stretching improvements⁵² than it proposed in areas we highlighted in our assessment of the business plan.

We support these interventions by Ofwat:

- Storm overflows - Pennon Group plan reduced to 17.5 spills per overflow by 2030. Ofwat challenge is to reduce to 16.5
- Total pollution incidents - Pennon Group had suggested a dynamic target with an ambition to be lowest in the sector. Ofwat has set all water and sewerage companies in England the same target, meaning Pennon is still incentivised to be the best through outperformance payment but its customers can also see clear targets for the entire period.
- Customer contacts about drinking water quality - for Bristol Water customers, Ofwat has set a target in year one (0.67 contacts per 1,000 population) that is more stretching than the business plan's end-of-period ambition (0.82 contacts per 1,000 population).

⁵⁰ Our latest response is here - [CCW response to Scoping the Water Efficiency Fund: Second Ofwat Consultation - CCW](#)

⁵¹ [PR24-draft-determinations-South-West-Water-Quality-and-ambition-assessment-appendix.pdf \(ofwat.gov.uk\)](#) p1

⁵² <https://www.ofwat.gov.uk/wp-content/uploads/2024/08/Key-Dataset-1-V3.xlsb>

However, in setting common performance commitment targets for some measures, Pennon Group has been given targets that are less challenging than the ones it had set for itself. For example, Pennon Group's business plan aimed to reduce supply interruptions to four minutes lost⁵³, in recognition of customers' expectation of a reliable drinking water supply. Ofwat's target remains at five minutes throughout the period. We think this should be revised as the company's target is more ambitious and would protect customers further from failure.

CCW notes that Ofwat has removed the seven-minute deadband suggested, meaning penalties will apply sooner if the company fails to meet the five-minute target. Nevertheless, we are supportive of challenging on some targets and believe the outcome delivery incentives should see the company retain its above-target ambitions throughout the period.

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.

Tackling leaks was a popular element of Pennon Group's plan with its customers, and Ofwat's significant efficiency findings following its benchmarking exercise will help make the challenge of reducing leaks by 15% for South West Water and 6% for Bristol Water more affordable for customers⁵⁴.

Sewer flooding and pollutions

The absolute target of a 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

⁵³ [outcomes.pdf \(southwestwater.co.uk\)](#) p38

⁵⁴ Page 11: [Overview-of-South-West-Waters-PR24-draft-determination.pdf \(ofwat.gov.uk\)](#)

research with CCW⁵⁵ 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 note that in its business plan Pennon set a more stretching target - of 0.80 internal sewer flooding incidents per 10,000 sewer connections - than the Draft Determination gives, at 1.16 incidents⁵⁶. We recognise that this is a common target, with all water and sewerage companies bar one being asked to meet this measure. We would like Ofwat to increase this target so that Pennon Group remains sufficiently incentivised to maintain its already strong performance in this metric (its 2023-24 achievement was 0.74) through the ODI rewards it can gain.

With protecting the environment a matter of such key importance to customers of Pennon Group, we welcome Ofwat's decision to set a target of zero for serious pollutions. We hope that this will help galvanise the company's efforts, particularly those of South West Water, in reducing pollutions and improving its environmental performance. Despite ambitions to receive a four-star Environmental Performance Assessment (EPA) rating from the Environment Agency, South West Water has repeatedly achieved just one or two stars⁵⁷, with serious pollutions being rated amber (below target) and total pollutions being rated red (seriously below target) in 2022 and 2023.

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.

PCs show a reduction of 5% for business demand in the South West region and a maintaining of performance in the Bristol region by the end of the AMP compared with 2019/20 baseline⁵⁸. Defra expects an overall reduction in business usage of 9% by 2037 but companies have varying

⁵⁵ [Customer experiences of sewer flooding - CCW](#)

⁵⁶ <https://www.ofwat.gov.uk/wp-content/uploads/2024/08/Key-Dataset-1-V3.xlsx>

⁵⁷ [South West Water EPA data report 2022 - GOV.UK \(www.gov.uk\)](#) and [South West Water EPA data report 2023 - GOV.UK \(www.gov.uk\)](#)

⁵⁸ [Overview-of-South-West-Waters-PR24-draft-determination.pdf \(ofwat.gov.uk\)](#) p11

Business Demand targets with some set modest reduction targets or a small increase by 2030. This raises questions of whether companies are being 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.

Ofwat has suggested a more stretching target for Bristol Water on water quality contacts. We are supportive of this. The company's business plan suggested the business maintain its current performance for the period to 2030⁵⁹, but the Draft Determinations state a 9% reduction⁶⁰. Ofwat's suggested target is stretching but would see the company as the fifth best performer in this measure⁶¹. Its own target would have seen it fall to be the second poorest performing water-only company. Ofwat has suggested the company should aim to continually improve.

Bespoke Performance Commitments

Ofwat will progress South West Water's proposed bespoke performance commitment on embodied greenhouse gas emissions⁶². As its common performance targets for greenhouse gas in both water and wastewater acknowledge its emissions will rise across the period,⁶³ we are supportive of South West Water being held accountable for embodying emissions, going some way to offsetting the GHG rise. We welcome Ofwat's agreement to progress this bespoke performance commitment.

⁵⁹ [pr24-bp-tables---swb.xlsb \(live.com\)](#) tab OUT7

⁶⁰ [Overview-of-South-West-Waters-PR24-draft-determination.pdf \(ofwat.gov.uk\)](#) Page 13

⁶¹ [Key-Dataset-1-V3.xlsb \(live.com\)](#) "view by PC" tab, contacts about water quality.

⁶² [Overview-of-South-West-Waters-PR24-draft-determination.pdf \(ofwat.gov.uk\)](#) Page 9

⁶³ [Overview-of-South-West-Waters-PR24-draft-determination.pdf \(ofwat.gov.uk\)](#), p9.

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 customers⁶⁴ 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 PCs⁶⁵ 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 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.

We cannot find mention of it in the Draft Determination but note that Pennon Group's WaterShare+ model, offering all customers shares in the company or money off their bill, allows the company to

⁶⁴ 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).

⁶⁵ Water supply interruptions; leakage; per capita consumption (PCC); internal sewer flooding; external sewer flooding; and total pollution incidents

share outperformance directly back with its customers. One in 14 customers now own a share in the business⁶⁶. We support this tangible sharing of profits with customers.

Long term context

Although Ofwat challenged companies to make sure their strategies were long-term, and mentioned the importance of all plans building together towards the national framework, little mention is made of long-term context in the Draft Determination. Whilst assurance is given through other documentation, such as the draft water resource management plans containing adaptive pathways, they are not all yet signed off. This means it is hard for consumers to see how the parts of the plan coming together now truly reflect the long-term strategy.

On the longer-term nature of this determination, Ofwat has been clear about the development costs it has allowed Pennon group for major projects, working in conjunction with Wessex Water⁶⁷. We support the importance of regional companies working together to develop interconnected resources and welcome the funding to develop plans for Cheddar 2, Mendips Quarries and Poole effluent Recycling and Transfers. The schemes will not begin construction until after 2030, with some being available for use after 2040. In protecting the water supply, through developing these new sources, we feel Ofwat has given a recognition to the longer-term context of the industry.

Enquiries

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⁶⁶ [WaterShare+ | South West Water](#)

⁶⁷ [Overview-of-South-West-Waters-PR24-draft-determination.pdf \(ofwat.gov.uk\)](#) Page 12