



The voice for water consumers
Llais defnyddwyr dŵr

**CCW's response to
Ofwat's 2025-30 Draft Price Determination
for SES 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 SES Water.

2. Executive Summary

Overall view

SES Water has a challenging (but deliverable, in Ofwat's view) plan that aims to improve the environment, protect the resilience of water resources and improve services to customers.

We are assured that due to Ofwat's efficiency challenges customers will not pay more than is necessary for the service they receive and are not charged twice for work which should have already been delivered.

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

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.

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](#)

PR24 must be a strong driver for SES 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

- The increased allowance for PR24 (compared to what was allowed at PR19) reflects the size of the environmental programme, expenditure to balance supply and demand (smart meters will play a key role), water quality, increased resilience and improved service to customers. Many of these areas have been identified as priorities by customers.
- The proposal to include a 'price control deliverable' for the legislative driver that enables the company to soften water to some of its customers.⁴ This means that funding can be returned to customers if delivery is not achieved.
- The use of nature-based solutions as a way to address biodiversity risks and to protect local catchments within the Water Industry National Environmental Plan (WINEP).
- The Draft Determinations set demand reduction targets that will support the company to deliver the statutory targets set in its Environment Improvement Plan.
- 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.

⁴ Page 8: [Overview-of-SES-Waters-PR24-draft-determination.pdf \(ofwat.gov.uk\)](#)

- 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%⁵ as higher leveraged capital structures have risks for customers.
- The move to encourage more companies to have an equity listing⁶, 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

- Clarity on the implications of the merger with Pennon and what this might mean for what costs the company is allowed for 2025-30.
- The Draft Determination is unclear on the consequence of not lifting all customers out of water poverty by 2030. Affordability is a key priority for the industry. In its final determination, Ofwat should ensure that SES Water (and the industry) aims to meet the Water UK commitment to make bills affordable as a minimum for all households with water and sewerage bills more than 5% of their disposable income by 2030 and develop a strategy to end water poverty⁷.
- 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.

⁵ Page 7: [PR24-draft-determinations-Aligning-Risk-and-Return-Allowed-Return-Appendix.pdf \(ofwat.gov.uk\)](#)

⁶ In the same way that FTSE index companies have listed equity

⁷ [Water industry reaffirms pledge to work in the public interest | Water UK](#)

- 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.
- 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 SES Water'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 SES Water tested its business plan in 2023 it revealed only 13% of customers found the plan affordable, while 66% 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 SES Water 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

The Draft Determination proposes a decrease of 15% on the average water bill from 2024-25 to 2029-30. This will be an 8% decrease over 2025-30 when forecast inflation is taken into account⁹. SES Water is the only water-only company that will see bills reduce during 2025-30.

This is substantially lower than the 18% (before inflation) increase proposed by SES Water in its revised Business Plan from spring 2024. This is due to Ofwat's challenge on SES Water's costs and tax allowances, as well as the revenue collected from customers.

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.

Affordability support

All companies in England are signed up to a public interest commitment to achieve that by 2030 and we are pleased to see that SES Water adheres to this pledge.

We believe companies should make direct contributions to funding their social tariff, so we support the intention for SES Water's shareholders to make a material contribution. But the exact value of the contribution and how it will be used is not yet known. CCW will engage further with the company on this issue.

It is unclear in the Draft Determination how different (better/worse) the proposed affordability support is compared to the business plan¹⁰. It appears Ofwat has simply noted the company's plans on affordability with no challenge. We think the Final Determination should be clearer on how and when the company will achieve its ambition to eradicate water poverty.

⁸ Pages 13 & 17: [ses018-customer-research-reports.pdf \(seswater.co.uk\)](https://www.seswater.co.uk/sites/default/files/2023-12/ses018-customer-research-reports.pdf)

⁹ Based on Office of Budget Responsibility economic forecast March 2024

¹⁰ ¹⁰ See page 3: [section-9-sesw-affordability_final.pdf \(seswater.co.uk\)](https://www.seswater.co.uk/sites/default/files/2023-12/section-9-sesw-affordability_final.pdf)

Costs and financing

Cost efficiency challenge

Ofwat reduced SES Water's proposed totex by 19% (£79m) to £340m¹¹. CCW expects Ofwat to remove any poorly evidenced expenditure, inefficient costs and any proposed activities that have been funded previously.

While this is less money than what was requested in the business plan. SES Water has been allowed £30m more than the company received at PR19¹². This reflects the size of the environmental programme, expenditure to balance supply and demand (smart meters playing a key role), water quality, increased resilience and improved services to customers.

Ofwat would like to reduce the speed at which SES Water recovers its costs over time¹³. This partly explains why bills will reduce in 2025-30. 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 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)¹⁴. 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.

¹¹ Page 5: Overview of SES Water Draft Determinations [Overview-of-SES-Waters-PR24-draft-determination.pdf \(ofwat.gov.uk\)](#)

¹² Page 2 [Overview-of-SES-Waters-PR24-draft-determination.pdf \(ofwat.gov.uk\)](#)

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

¹⁴ Page 9: [PR24-draft-determinations-Aligning-Risk-and-Return-Allowed-Return-Appendix.pdf \(ofwat.gov.uk\)](#)

Ofwat's Draft Determinations make a case that the increase in the assumed cost of equity should retain investment, help address risks associated with highly geared companies¹⁵, as well as reflecting market conditions.

It is in this context that we support the reduction of notional gearing to 55%¹⁶ 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 assumed¹⁷.

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.

SES Water is one of four companies that applied for company-specific adjustment to the cost of debt as a result of their relatively small size. But one of the undertakings from the Competition and Markets Authority as part of the merger with Pennon was to waive SES Water's request or seek Ofwat's consent to disapply any request already awarded. As a result, Ofwat considers the

¹⁵ Page 16 of [Ofwat's Financial Resilience Monitoring Report 2022-23](#) shows that 11 companies are above the notional gearing level.

¹⁶ Page 7: [PR24-draft-determinations-Aligning-Risk-and-Return-Allowed-Return-Appendix.pdf \(ofwat.gov.uk\)](#)

¹⁷ For example, the financing windfalls highlighted in the National Audit Office review of economic regulation in the water sector (2015) see [here](#)

company's request to be waived and does not propose to consider further the question of whether to allow the company an adjustment. Given the change of ownership, CCW agrees with this.

Gearing Outperformance Sharing Mechanism

We are disappointed that Ofwat has withdrawn the Gearing Outperformance Sharing Mechanism in its Draft Determinations¹⁸. While Ofwat has not had to 'activate' the mechanism since price controls were set at PR19, it may give the impression that Ofwat changed the rules part way through the price control and that if there had been any outperformance since 2020, this would not have been shared with customers as a 'true up' at this price review.

We acknowledge that two thirds of the £4.6 billion equity injected into the sector since 2021 has been to strengthen financial resilience and reduce gearing¹⁹.

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.

Financial resilience

SES Water is one of the six companies that has been requested to provide Board assurance and supporting evidence that they will maintain adequate levels of financial resilience in the context of the draft determination and beyond²⁰. Ofwat is not requiring financial resilience plans, but the company will need to show how it has updated the assessment of financial resilience in the context of the draft determination. This is something that CCW would like to monitor closely, given the potential implications for customers. However, we question whether the recent acquisition of SES Water by the Pennon group means the financial resilience issues have been subsequently addressed.

¹⁸ [PR24-draft-determinations-Aligning-Risk-and-Return-Appendix-1.pdf \(ofwat.gov.uk\)](#) page 68

¹⁹ Confirmed in separate correspondence from Ofwat to CCW.

²⁰ Page 65: [PR24-draft-determinations-Aligning-Risk-and-Return-Appendix-1.pdf \(ofwat.gov.uk\)](#)

Cost sharing rates

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

Customer influence

The company's Quality and Ambition assessment appendix suggests that SES Water broadly met Ofwat's minimum expectations for customer engagement and how customers' views were used to inform the development of the plan. But, outside the brief mention of customer engagement within the quality assessment, there is little explanation of the extent to which Ofwat has assessed the level of customer engagement and challenge of the business plan, or how it may have influenced its Draft Determinations.

In the main 'Delivering Outcomes for Customers and the Environment' document, the only mention of customer engagement having any influence is where it states that customer support may be used in support of a bespoke performance commitment.

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

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

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

Given the scale of research and engagement that took place to inform the company's business plan, including the work of Customer Scrutiny and Environmental Scrutiny Panels 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.*"²¹

²¹ [Ofwat PR24 and beyond Customer engagement policy – a position paper February 2022 Page 11](#)

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.

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 reports²² 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

²² [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 report²³. 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

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.

²³ [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

Under its 2025-30 Water Industry Environmental Programme (WINEP), SES Water needs to deliver £5m of investment to improve the environment²⁴. This includes screens for eels and fish to protect habitats in the River Eden. Also investigations of the use of environmental solutions to assess the impact of abstraction in the future.

We also note that for the WINEP, the Draft Determination allowance is greater than what the company proposed in its business plan for drinking water quality (raw water deterioration and investigations). This is because the company's proposed expenditure is efficient when compared against the other companies.²⁵

Customers supported the WINEP to address biodiversity risks and to protect local catchments²⁶. Going forward, in its quest to improve trust in the company, it would be helpful if SES Water were to explain to its customers how it is investing in solutions to protect and improve the environment.

²⁴ Page 6: [Overview-of-SES-Waters-PR24-draft-determination.pdf \(ofwat.gov.uk\)](#)

²⁵ Table 45: [PR24-draft-determinations-Total-expenditure-allowances-by-company.pdf \(ofwat.gov.uk\)](#)

²⁶ [ses018-customer-research-reports.pdf \(seswater.co.uk\)](#)

Nature based solutions

We welcome the 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 term²⁷.

Our recent research²⁸ 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.

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. We note that Ofwat has challenged the company to reduce the number of contacts it receives from customers about water quality by a further 16%²⁹. This should be an area that directly improves the service so customers will hopefully see the improvement delivered.

We accept that there is a legislative driver resulting in SES Water being awarded an additional £19m to enable to soften the water supplied to some of its customers³⁰.

²⁷ [Keen to go Green? Customer preferences and priorities for waste water solutions - CCW](#)

²⁸ [Customer Spotlight: People's views and experiences of water 2024 - CCW](#)

²⁹ Page 9: [Overview-of-SES-Waters-PR24-draft-determination.pdf \(ofwat.gov.uk\)](#)

³⁰ Page 69: [Overview-of-SES-Waters-PR24-draft-determination.pdf \(ofwat.gov.uk\)](#) and [PR24-draft-determinations-Total-expenditure-allowances-by-company.pdf \(ofwat.gov.uk\)](#)

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, as trade-offs have been made to protect customer affordability. However, it is unclear in the draft determination what allowances specifically for are for statutory and discretionary investments and, what has been deferred to future price reviews.

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 does not allow SES Water to increase the water main renewals rates from its Business Plan submission. These will remain stable at 0.30% p.a. over 2025-30^{31,32}. SES Water did not specifically test mains repair with customers because this is a measure of asset health and closely linked to supply interruptions. SES Water's customers did not support improving current performance on supply interruptions given the company's strong performance in this area³³. So in this context, and based on customer preferences, CCW supports Ofwat's stance on mains renewal.

We 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.

³¹ [PR24-DD-Mains-renewals-adjustments.xlsx \(live.com\)](#)

³² Table 6 [PR24-draft-determinations-Expenditure-allowances-to-upload.pdf \(ofwat.gov.uk\)](#)

³³ Page 15: [section-5-sesw-our-customers-and-their-priorities_final.pdf \(seswater.co.uk\)](#)

Net zero

Companies in England made a public commitment to achieve net zero carbon emissions by 2030³⁴. SES Water's customers did not show clear support for the company to invest to accelerate carbon reduction initiatives³⁵. As a result, the company will not pursue the public commitment to achieve net zero by 2030. Instead, it will take an 'incremental' approach to aim to achieve net zero by 2050, in line with the Government commitment.

Companies need to be clear with customers on what progress will be made to 2030 how this lines up with the Government's overarching goal to achieve Net Zero by 2050, when will net zero be fully achieved, and what are the cost and bill impact implications will be of delivering this commitment.

Water resources and demand management

Customers placed a high priority on the reliability and resilience of water supplies³⁶ in the customer engagement SES Water carried out to inform its business plan, so we support the investment in 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.

In its assessments, Ofwat found that SES Water's unit cost for leakage activities is three times higher than the benchmark unit cost, so under the efficiency challenge SES Water has received £3m of the proposed £10m to reduce leakage by 16%³⁷. We support Ofwat's interventions to ensure costs are efficient but this must also be deliverable if the company is to meet customer expectations.

Water Resource Management Plan

Company research shows that customers place a priority on the security of their supplies³⁸, so we support the company's approach in the WRMP of focusing on reducing the demand for water through reduced consumption and leakage (from customer owned pipes as well as from the company's network).³⁹

³⁴ [Water industry reaffirms pledge to work in the public interest | Water UK](#)

³⁵ Page 19: [section-5-sesw-our-customers-and-their-priorities_final.pdf \(seswater.co.uk\)](#)

³⁶ Page 14: [section-5-sesw-our-customers-and-their-priorities_final.pdf \(seswater.co.uk\)](#)

³⁷ [PR24-draft-determinations-Expenditure-allowances-to-upload.pdf \(ofwat.gov.uk\)](#) page 102

³⁸ Page 14: [section-5-sesw-our-customers-and-their-priorities_final.pdf \(seswater.co.uk\)](#)

³⁹ Page 1: <https://seswater.co.uk/-/media/files/seswater/about-us/publications/ses-revised-draft-wrmp-non-technical-summary-021123.pdf>

We support the company's plans to consider the development of new resources, depending on whether the company is able to achieve the expected reductions in demand and if population grows at a faster rate than is currently anticipated⁴⁰.

Smart meters

Smart meters are essential to managing and reducing demand and identifying leakage. SES Water has been allowed £17.8million⁴¹ for smart metering to help reduce household and business demand. This represents 76% of what the company requested in its business plan⁴² and should enable it to deliver over 206,000 smart meter installations (between replacements and new meters being fitted)⁴³.

SES Water's business plan shows that there is little support from customers to pay more to deliver smart meters faster⁴⁴, so the Draft Determination is a reasonable compromise.

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.

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.

⁴⁰ Page 14: <https://seswater.co.uk/-/media/files/seswater/about-us/publications/ses-revised-draft-wrmp-non-technical-summary-021123.pdf>

⁴¹ Table 25 Metering costs and number of meters to be delivered [PR24-draft-determinations-Expenditure-allowances-to-upload.pdf \(ofwat.gov.uk\)](#)

⁴² Page 70: [PR24-draft-determinations-Total-expenditure-allowances-by-company.pdf \(ofwat.gov.uk\)](#)

⁴³ Table 25 Metering costs and number of meters to be delivered [PR24-draft-determinations-Expenditure-allowances-to-upload.pdf \(ofwat.gov.uk\)](#)

⁴⁴ Page 17: [section-5-sesw-our-customers-and-their-priorities_final.pdf \(seswater.co.uk\)](#)

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 consultations⁴⁵.

Demand reduction

In terms of reducing water use for personal and business use, Ofwat broadly agrees with the company's proposal to reduce these by 9% and 11% respectively⁴⁶ (the reduction is from 2024-25 to 2029-30, on an annual basis). We note Ofwat mentions minor concerns regarding consistency between the figures presented in the Water Resource Management Plan (WRMP) and the business plan regarding meeting government targets on leakage, per capita consumption (PCC), business demand and distribution input per population. We will seek clarity on the activities the company plans to do to support customers (households and businesses) to reduce their water use. The Draft Determination does not have any information about this.

We would expect the data collected from the smart metering programme to support the delivery of the targets set to reduce demand management (leakage, PCC and business demand). We would also like to see detail of how SES Water plans to engage customers with the information provided by the smart meter about their water use.

Performance Commitments and Outcome Delivery Incentives

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

As such, we welcome Ofwat's challenges to the company's PC targets in five areas⁴⁷ to deliver more stretching improvements than it proposed in areas we highlighted in our assessment of the business plan.

However, the target for water supply interruptions is less ambitious than in the business plan (5 minutes in 2029-30⁴⁸ compared to 3 minutes and 30 seconds⁴⁹) for a company that is currently one

⁴⁵ Our latest response is here - [CCW response to Scoping the Water Efficiency Fund: Second Ofwat Consultation - CCW](#)

⁴⁶ [Overview-of-SES-Waters-PR24-draft-determination.pdf \(ofwat.gov.uk\)](#) Page 8

⁴⁷ Customer contacts about drinking water quality, biodiversity, per capita consumption, business demand, unplanned outage

⁴⁸ Page 102: [PR24-draft-determinations-Delivering-outcomes-for-customers-and-the-environment.pdf \(ofwat.gov.uk\)](#)

⁴⁹ Page 7: [section-6-sesw-the-outcomes-we-will-deliver_final.pdf \(seswater.co.uk\)](#)

of the leading performers in this area⁵⁰. This should be improved in the Final Determination as customers place a priority on supply reliability

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.

For SES Water the 16% target for leakage reduction against the 2024-25 baseline⁵¹ puts the company's proposals among the more ambitious companies for 2025-30⁵². We support the company's proposals given the value customers place on reducing leakage.

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.

The company's performance commitment shows a reduction of 15% for business demand by the end of the AMP compared with 2019/20 baseline⁵³, which will see the company sufficiently incentivised to meet the Defra target.

⁵⁰ [Ofwat Service and Delivery Report 2022-23](#) page 5

⁵¹ Page 2: [Overview-of-SES-Waters-PR24-draft-determination.pdf \(ofwat.gov.uk\)](#)

⁵² Page 1: [PR24-draft-determinations-SES-Water-Quality-and-ambition-assessment-appendix.pdf \(ofwat.gov.uk\)](#)

⁵³ <https://www.ofwat.gov.uk/wp-content/uploads/2024/07/PR24-DD-PCM-Business-demand-1.xlsx>

Drinking Water Quality customer contacts

Ofwat has placed a stretching performance commitment for the company with regards to customer contacts about drinking water. The expectation is for the company to deliver a 16% reduction on contacts about poor water quality⁵⁴ (compared to 2020-23 average performance). CCW supports this.

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 customers⁵⁵ have a higher value, which we support.

⁵⁴ Page 9: [Overview-of-SES-Waters-PR24-draft-determination.pdf \(ofwat.gov.uk\)](#)

⁵⁵ 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 PCs⁵⁶ to provide additional outperformance payments to higher performing companies. Even with the aggregate sharing mechanism in place, customers 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.

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.

SES Water produced a Long-Term Delivery Strategy, in line with Ofwat's requirements for PR24. In this strategy, the company set out how the proposals for 2025-30 contribute towards achieving long-term goals for the company's customers and the environment. Also, many of the PCs (for example PCC, leakage, and reductions in business water use), as well as plans to increase the number of smart meters are framed within the expectations set in the WRMP, which has a long-term vision.

However, we cannot find strong evidence of how Ofwat assessed the Long Term Delivery Strategy and how it was used to support the decisions to fund the company's proposals.

⁵⁶ Water supply interruptions; leakage; per capita consumption (PCC); internal sewer flooding; external sewer flooding; and total pollution incidents

Enquiries

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