



The voice for water consumers  
Llais defnyddwyr dŵr

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

## 2. Executive Summary

### Overall view

Overall, we find the Draft Determinations to be a balanced response to Severn Trent's Business Plan submission. Ofwat's interventions have reduced costs but maintained or increased stretching performance targets in most areas which should see customers receive notable improvements in service. However, we are disappointed that it has not been possible to understand how customer preferences have been considered in Ofwat's decisions.

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

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

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

Customer trust in the sector has declined in CCW's annual Water Matters surveys<sup>1</sup>, and Ofwat's recent research<sup>2</sup> 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 environment<sup>3</sup>. PR24 must be a strong driver for Severn Trent Water to address these worrying trends.

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<sup>1</sup> [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.

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

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

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

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

### **What we support and why**

- Ofwat's challenge to the company's proposed costs, as customers should be assured that allowed expenditure is efficient and any poorly evidenced investment is challenged.
- The increase to shareholder contributions to help affordability schemes for those struggling to pay
- Company commitment to return the Quality and Ambition reward if key commitments to increase shareholder funding for affordability support, maintain its 4 star EPA rating and meet storm overflow spill targets are not delivered.
- Sector leading targets to reduce Storm Overflow spills with commitment to deliver a significant proportion through base expenditure.
- 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%<sup>4</sup> as higher leveraged capital structures have risks for customers.
- The move to encourage more companies to have an equity listing<sup>5</sup>, as it allows for greater transparency and governance in the company's financial structure.
- The introduction of BR-MeX to incentivise 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**

- Affordability support still funded mostly by customers. We would like to see the company formalise its commitment to review and increase shareholder contributions if the cost of social tariffs to eradicate water poverty is greater than customers are willing to subsidise.
- 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 Severn Trent (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 poverty<sup>6</sup>.
- We fully support the concept of C-MeX. However, we are disappointed that, after extensive engagement with Ofwat, an additional metric to measure customer complaint volumes is not part of the range of C-MeX components. This is a missed opportunity to incentivise a reduction in customer complaints.

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

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

<sup>5</sup> In the same way that FTSE index companies have listed equity

<sup>6</sup> [Water industry reaffirms pledge to work in the public interest | Water UK](#)

- 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 Severn Trent 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 Severn Trent tested its business plan in 2023, it revealed only 11% of customers found the plan affordable, while 72% found the package of improvements acceptable<sup>7</sup>.

The current research we are undertaking will show whether the interventions Ofwat has made to increase the ambition of what Severn Trent 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**

Ofwat's Draft Determination indicates a 23% rise in the average household bill of £93 from £403 to £496 in 2030, before inflation<sup>8</sup>. This increases to 34% over 2025-30 when forecast inflation is taken into account<sup>9</sup>.

This is lower than the average bill of £528 that Severn Trent had proposed in its business plan.

The year-on-year bill profile that Ofwat has put in the Draft Determination has smoothed the bill increases over the first four years of the price control period before remaining flat in the final year. This is noticeably different from the profile in Severn Trent's business plan, which included a much steeper first-year increase followed by smaller increases in years two to four, before a reduction in the final year.

This is a welcome intervention. Severn Trent's Long Term Delivery Strategy research<sup>10</sup> with customers suggested that they prefer any increases to be introduced gradually over a period of time rather than experiencing bill spikes and drops to align with the timing of specific investment.

Customers have also told us<sup>11</sup> they are struggling to afford their bills in the current cost-of-living crisis. We therefore believe that Ofwat's imposition of a smoother bill profile to spread the investment costs across the period if more appropriate than one which frontloads price increases on customers' bills.

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<sup>7</sup> Pages 34 & 45 [Severn Trent Business Plan Appendix 3a.3 Affordability & Acceptability Quantitative research report](#)

<sup>8</sup> Figure 1.1: [Ofwat: Overview of Severn Trent Water PR24 Draft Determination \(page 4\)](#)

<sup>9</sup> Based on Office of Budget Responsibility economic forecast March 2024

<sup>10</sup> Page 13: [Severn Trent: Long Term Delivery Strategy research August 2023](#)

<sup>11</sup> [CCW: Water Matters 2024](#)

We welcome Ofwat’s challenge to the company’s proposed costs that has led to the reduction in the proposed bill increase, as customers should be assured that allowed expenditure is efficient and any poorly evidenced investment is challenged.

### **Affordability support**

We are supportive of the affordability plan that Severn Trent has put in place and welcome Ofwat’s decision to allow it to go ahead. The company consulted widely with CCW and the Expert Challenge Panel when developing its plans.

We agree with Ofwat’s assessment that the company’s ambition in this area is moderate. Although the company believes that there is support in place to ensure there are no customers in water poverty by 2029/30, most of the funding to deliver this support is due to the generosity of fellow customers who supported a £25 increase to the cross-subsidy<sup>12</sup>.

We welcome the commitment by the company to contribute an additional £25m in shareholder funding for affordability support. We have asked Severn Trent to provide us with more information about how they see this funding being used.

With regard to the customer cross-subsidy, we note that Severn Trent may look to use an additional £15 subsidy. This received support from 51% of customers<sup>13</sup> surveyed in its recent research. This would be on top of the recently applied £25 increase to the cross-subsidy, making a total increase of £40. We expect the company to liaise with CCW before applying this uplift as we would not usually consider 51% to reflect “broad customer support” as required in the Defra social tariff guidelines. We think there is a material difference between the support for the additional £25, which two-thirds of respondents supported, and the just over half who supported the proposal for an extra £15.

Severn Trent suggests that this further uplift would be utilised “*if water poverty worsened*”. Any worsening in economic circumstances which triggered the need for additional funding would require further customer research to confirm that support remains for an increase in the cross-subsidy. This is because some of those who indicated their willingness in earlier research may then find themselves in need of support, particularly if this is proposed towards the end of the 2025–2030 period.

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<sup>12</sup> Pge 13: [Severn Trent: Big Difference Scheme Research May 2023](#)

<sup>13</sup> Table 3: [Ofwat: PR24 Draft Determinations Severn Trent Water quality and ambition assessment appendix \(page 5\)](#)

We would also expect Severn Trent to consult CCW on any plans to reduce the level of support offered as a bill discount through its Big Difference Scheme so we can understand the rationale behind the decisions and their plans for mitigating any impact already being supported.

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 shareholder contributions and that which is being funded as a choice within cost-to-serve allowances, and so paid for by customers. In the interests of transparency we would welcome Ofwat being clear about this in the Final Determination, and ensuring company commitments can be compared and tracked on a like-for-like basis.

## **Costs and financing**

### Cost efficiency challenge

Ofwat reduced Severn Trent's proposed totex by 13% to £12.2bn<sup>14</sup>. We support Ofwat removing any poorly evidenced expenditure, inefficient costs and any proposed activities that have been funded previously. As a result, costs have been cut in relation to drinking water quality, resilience and security and the Water Industry National Environmental Programme (WINEP).

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. Ofwat has intervened to amend Severn Trent's 'pay as you go' (PAYG) rates - a decision that CCW supports.

The company approach would result in a revenue advance through PAYG and Regulatory Capital Value (RCV) run-off rates. Ofwat's view is that the financeability constraint the company has identified is due to increased gearing resulting from a growth in RCV. Ofwat says it would be more appropriate to address this through an injection of equity. We agree, as high levels of gearing can lead to risks (as we have seen with other companies).

It also states that the company has not struck a fair balance between current and future customers or considered affordability considerations for customers in making its PAYG decision. We are supportive of Ofwat's position on this issue - investment costs should be spread fairly between current and future customers.

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<sup>14</sup> Table 14: [Ofwat: PR24 Draft Determinations Total expenditure allowances – by company \(page 23\)](#)



## 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)<sup>15</sup>. We recognise that with a high-cost investment programme, an increase in equity financing cost assumptions (in the Weighted Average Cost of Capital) is the main driver of the increase in allowed returns as equity needs to increase if the enhancement investment is to be delivered in a financially sustainable way.

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

Ofwat's Draft Determinations make a case that the increase in the assumed cost of equity should retain investment, help address risks associated with highly geared companies<sup>16</sup> as well as reflecting market conditions.

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

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

<sup>16</sup> In [Ofwat's 2022-23 Financial Resilience report](#), 11 companies are above the notional gearing baseline.

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

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 assumed<sup>18</sup>.

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

#### Supporting new equity issuance

Given the significant increase in investment in this price review, we agree with Ofwat's position that companies must demonstrate that their chosen option for raising finance is in the best interest of customers and the environment<sup>19</sup>.

#### Gearing Outperformance Sharing Mechanism

We are disappointed that Ofwat has withdrawn the Gearing Outperformance Sharing Mechanism in its Draft Determinations<sup>20</sup>. 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 gearing<sup>21</sup>.

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.

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

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

<sup>20</sup> [PR24-draft-determinations-Aligning-Risk-and-Return-Appendix-1.pdf \(ofwat.gov.uk\)](#) page 68

<sup>21</sup> Confirmed in separate correspondence from Ofwat to CCW.

Ofwat should reintroduce this mechanism, calibrated to account for changes in forecast inflation that were unforeseen when it was last set at PR19.

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

### Cost sharing rates

We accept Ofwat's decision on Severn Trent's standard cost sharing rate of 50/50 on its base expenditure for any future out- or under-performance on base expenditure.

### **Customer influence**

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

There is also a line in the 'Your Water Your Say' report that suggests 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.

Ofwat's comments on Severn Trent's specific engagement is limited to three lines, stating that it is *"broadly in line with our minimum expectations"* but commenting that while research materials were published, some could be more accessible for customers.

Given the scale of research and engagement that took place to inform the business plan, including the work of the Expert Challenge Panel (ECP) 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.”<sup>22</sup>

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 reports<sup>23</sup> 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,

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<sup>22</sup> [Ofwat PR24 and beyond Customer engagement policy – a position paper February 2022 Page 11](#)

<sup>23</sup> [Household customer complaints report 2023 - CCW](#)

we want to see 25% of the value of C-MeX based on a measure of the volume of complaints a company receives.

Ofwat raises concerns in the Draft Determinations about the reliability and accuracy of complaint data as reported by companies, as the basis of its decision to exclude a complaints volume metric. However we have demonstrated to Ofwat how CCW has delivered greater consistency in data reporting through the development of our guidance to companies, and new complaint assessments. Including telephone and other complaints (in addition to written complaints) in our data suite means a full picture is possible of company performance. After a shadow period, we first published this information in our 2023 complaints report<sup>24</sup>. 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.

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<sup>24</sup> [Household customer complaints report 2023 - CCW](#)

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

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

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

### Operational incidents

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

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

### **Statutory investment programme**

We recognise that the environment and drinking water quality programmes are driven by legislation, but we have seen from Severn Trent's customer engagement<sup>25</sup> and the research to test the business plan that customers broadly want to see the improvements these programmes should deliver.

As customers would expect the environment programme to be delivered efficiently, we agree with Ofwat's decisions to:

- Apply a 20% efficiency reduction to Severn Trent's enhancement expenditure request resulting in a programme costing £4.8bn<sup>26</sup>

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<sup>25</sup> [Severn Trent Water: Long Term Delivery Strategy research August 2023](#)

<sup>26</sup> Page 24: [PR24-draft-determinations-Total-expenditure-allowances-by-company.pdf \(ofwat.gov.uk\)](#)

- Make a significant reduction in funding for nutrients removal<sup>27</sup> as Ofwat has determined that some of this has been funded through the Green Recovery programme and will be complete by 2025. Customers must not pay for investment that has already been funded.
- Apply a 60% reduction to the company's sludge programme following a deep-dive review of costs<sup>28</sup>
- Allow funding for some of Severn Trent's Net Zero innovations – projects which will provide sector-wide learning about the best way to reduce emissions<sup>29</sup>

### Storm overflows

We are pleased to see that Severn Trent has been set a sector-leading<sup>30</sup> target on the reduction of storm overflows. If this is delivered, it will see Severn Trent both producing the lowest number of average spills and the highest number of individual storm overflow improvements. Severn Trent has included the average spill target as one of its key commitments and has committed to pay back the reward it receives from its 'Outstanding' quality and ambition assessment if this is not achieved. We welcome this commitment as a way of holding itself to account for the promises it has made to customers.

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.

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. Severn Trent should commit to publishing their prioritisation plans showing how and when they will deliver work to address storm overflows.

To enable this, the company needs to address any 'gaps' in its evidence<sup>31</sup> 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.

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<sup>27</sup> Table 16: [PR24-draft-determinations-Total-expenditure-allowances-by-company.pdf \(ofwat.gov.uk\)](#)

<sup>28</sup> Page 27: [PR24-draft-determinations-Total-expenditure-allowances-by-company.pdf \(ofwat.gov.uk\)](#)

<sup>29</sup> Page 27: [PR24-draft-determinations-Total-expenditure-allowances-by-company.pdf \(ofwat.gov.uk\)](#)

<sup>30</sup> Page 7: [Overview-of-Severn-Trent-Waters-PR24-draft-determination.pdf \(ofwat.gov.uk\)](#)

<sup>31</sup> The EA's Reasons for not achieving Good (RNAG) data may provide such evidence.

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

We support the level of base costs allowed for addressing reductions in storm overflow spills and the harm they cause. We consider that companies can deliver improvements in storm overflow spills by preventing or removing blockages, undertaking investment to ensure existing permits are met and maintaining assets well. Data reported to the Environment Agency over 2021-23 identifies that 18-29% of high-spilling overflows on average across the sector are happening because of maintenance and operational issues.

### Nature based solutions

We welcome increased allowances for the company to use nature based approaches for both the storm overflow and nutrients programmes, 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 term<sup>32</sup>. Severn Trent has been allowed £265m for catchment and nature based solutions<sup>33</sup> but it is not clear what the company is expected to deliver for this investment both in terms of schemes and outputs.

Our recent research<sup>34</sup> 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.

We also welcome Ofwat's approach of assessing the cost benefit of these schemes separately from traditional grey solutions so that they are not discounted on a purely cost basis.

### 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

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<sup>32</sup> [Keen to go Green? Customer preferences and priorities for waste water solutions - CCW](#)

<sup>33</sup> Table 33: [Ofwat: PR24 Draft Determinations Expenditure allowances \(page150\)](#)

<sup>34</sup> [Customer Spotlight: People's views and experiences of water 2024 - CCW](#)



lead reduction schemes, particularly in properties and private supply pipes. This should be a good basis for making further significant progress in PR29.

Severn Trent has reduced its initial lead programme based in part on the learning from its Green Recovery scheme which found that the costs and complexities in locating and removing customer lead pipes were higher than anticipated. Customer acceptability of works on their pipework was a factor in delivering the programme. We think this is a reasonable decision by the company and is in line with customer priorities when considered alongside the overall investment programme.

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

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

#### Security and Emergency Measures (SEMD)

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

#### 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 this has meant that some customer supported investment proposals have been delayed, reduced or cut, so we remain concerned that some issues such as asset resilience and drinking water quality improvements may not be fully addressed until PR29 or beyond.

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

We are supportive of the intentions behind Severn Trent’s Urban catchments of the future enhancement scheme as we agree that a more holistic approach to tackling the risks of flooding to customers’ homes will be required to deliver effective solutions. We have concerns that funding for alleviation of sewer flooding – the worst service failure that a customer can experience – is being pushed out at PR24 due to cost pressures from elsewhere. For example, although there is clear support for investment in storm overflows, we believe there should be synergies in investment that will deliver reductions in river pollution and flooding to customer homes through building greater capacity and storage into the wastewater network

We note that Ofwat has a number of concerns about the Urban catchments scheme, and has determined that Severn Trent has failed to convince of the need for the investment and that the best, more cost-effective solutions have been selected. We are supportive of the principle that customers must not pay twice for improvements that have been funded elsewhere. However, we hope that Severn Trent and Ofwat can come to an agreement by Final Determinations for a reworked scheme that will deliver the future learnings and multiple benefits to service that customer will expect.

We encouraged the company to be explicit about its Green Recovery experiences in setting out its business case for the lead programme. It is important to be transparent about unforeseen difficulties that impact on its ability to deliver against its targets. The company must use these learnings and those gleaned through delivery of its AMP8 programme to develop a more effective strategy for eliminating lead pipes. For example, the contact it will have with customers through its smart metering programme offers the opportunity to gather data about the presence of lead pipes on its network and in customers’ homes.

### Mains renewal

Severn Trent’s approach to mains renewal – delivering a higher proportion through its base allowance and adopting a renewal rate of 0.57%<sup>35</sup> that represents a significant increase in activity – is also positive. Customers want to see a reliable and secure supply of water and seeing the company do its part in strengthening the reliability and security of its network will be important in

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<sup>35</sup> Table 6: [Ofwat PR24 Draft Determinations Expenditure Allowances](#)

helping to deliver the behaviour change required from customers to contribute to water efficiency targets.

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

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.

### **Water resources and demand management**

Customers placed a high priority on the reliability and resilience of water supplies in the customer engagement Severn Trent carried out to inform its Water Resource Management Plan<sup>36</sup>, so we support investment in its water resources over 2025-30.

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

Ofwat's Quality and Ambition Assessment notes that the company's business plan is inconsistent with the latest version of the Water Resource Management Plan (WRMP) and that there are a number of outstanding queries which have not been addressed. It is disappointing that there is a lack of clarity on water resources due to the delay in publishing final versions of the WRMP.

The company has been allocated more than requested for supply/demand and metering costs as it was found to be projecting costs that were more efficient than Ofwat's models<sup>37</sup>. Where companies receive an uplift in cost allowances, this should be to ensure that customer supported commitments are deliverable.

Severn Trent expects business demand to increase by 3% by 2030, and Defra expects an overall reduction in business usage of 9% by 2037. We expect to see more detail on the WRMP about how the company will contribute to this target and deliver an effective metering roll-out for its household and business customers.

### **Smart meters**

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<sup>36</sup> [Severn Trent dWRMP consultation customer research June 2023](#)

<sup>37</sup> Page 25: [PR24-draft-determinations-Total-expenditure-allowances-by-company.pdf \(ofwat.gov.uk\)](#)

Smart meters are essential to managing and reducing demand and identifying leakage. We wish to see further clarity about the ambitious smart metering programme to help reduce household and business demand, and the expectations this investment implies for leakage reduction and tariff development.

It is positive to see that Ofwat has provided minimum expectations about what companies should consider (i.e. optimal technologies, rather than low cost and reduced functionality), and the frequency for data to be collected. However, more detail is required to show how smart metering will be rolled out. The Draft Determination shows that Ofwat has challenged the company's proposed costs but not how the programme will be prioritised and delivered. There should also be sharing of good practice within the industry on how smart meters have been rolled out to homes and businesses, so that companies can learn from each other.

We have called for smart metering for businesses to give customers better information and control over their usage<sup>38</sup>. 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<sup>39</sup>. Replacing these meters could be costly but failing to do so, and choosing simpler installations instead, would fail to address a major issue for non-household customers.

### Water Efficiency Fund

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

We have submitted responses to both of Ofwat's consultations<sup>40</sup>.

### **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.

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<sup>38</sup> [Our review of five years of the water retail open market - CCW](#)

<sup>39</sup> [Our review of five years of the water retail open market - CCW](#)

<sup>40</sup> Our latest response is here - [CCW response to Scoping the Water Efficiency Fund: Second Ofwat Consultation - CCW](#)

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

The PC levels set in the Draft Determination for Severn Trent are generally a stretching set of targets for the company that should deliver improvements for customers across a range of important measures<sup>41</sup>.

The sector-leading, or near leading, targets for leakage and storm overflows are welcome as these are clear customer priorities<sup>42,43</sup>. Severn Trent is also set targets to remain at the frontier for external sewer flooding and to deliver improvements in its internal flooding performance. We also welcome the target to reduce supply interruptions by nearly 55%<sup>44</sup>.

There are some areas where we feel the targets could be tougher. The sector-wide Unplanned Outage target of 2.14% is at a higher level than Severn Trent has delivered in all but one year since 2018 and is a less stretching target than the company proposed in its business plan<sup>45</sup>.

### 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.

We are pleased to see a stretching target on leakage – a 16.2% reduction<sup>46</sup>. If delivered, this would be the second highest reduction in the sector.

### Sewer flooding

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<sup>41</sup> Water supply interruptions, external sewer flooding, Greenhouse Gas Emissions (wastewater), leakage, storm overflows, mains repairs, sewer collapses all upper or third quartile at 2030.

<sup>42</sup> [Severn Trent Water: Perceptions of leakage - Leakage and reputational research December 2022](#)

<sup>43</sup> [Severn Trent Water: River pollution and river use residents research April 2022](#)

<sup>44</sup> Page 11: [Overview-of-Severn-Trent-Waters-PR24-draft-determination.pdf \(ofwat.gov.uk\)](#)

<sup>45</sup> [Severn Trent Business Plan Data Table Tab OUT1](#)

<sup>46</sup> Page 2: [Overview-of-Severn-Trent-Waters-PR24-draft-determination.pdf \(ofwat.gov.uk\)](#)

The absolute target of 13% reduction applied to the internal sewer flooding PC is lower than the equivalent target set at PR19<sup>47</sup>. While we accept trade-offs have been made to protect customer affordability in the light of a high-cost environment programme, Ofwat's joint research with CCW<sup>48</sup> clearly shows the impact sewer flooding can have on households, businesses and communities. So this should be more challenging with relative targets and related investment and base costs applied to better incentivise the comparatively poor performers.

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

We are pleased that Severn Trent is also set targets to remain at the frontier for external sewer flooding and to deliver improvements in its internal flooding performance.

#### Per Capita Consumption (PCC)

We are supportive of the household consumption target for Severn Trent, which would see the company with the third lowest PCC by 2030<sup>49</sup>.

#### 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.

Ofwat's targets shows a reduction of 8.1%<sup>50</sup> for business demand by the end of the AMP compared with 2019/20 baseline. Defra expects an overall reduction in business usage of 9% by 2037 so this shows good progress is being targeted toward achieving this requirement.

#### Drinking Water Quality customer contacts

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<sup>47</sup> Page 16: [Ofwat PR19 Final Determinations: Policy Summary \(Page 16\) 41% reduction in internal sewer flooding.](#)

<sup>48</sup> [Customer experiences of sewer flooding - CCW](#)

<sup>49</sup> [Ofwat Draft Determination models PCC \(Tab Output Final PCLs line 42\)](#)

<sup>50</sup> <https://www.ofwat.gov.uk/wp-content/uploads/2024/08/Key-Dataset-1-V4.xlsb>

The company could be pushed to go further in reducing contacts from customers about water quality. The target is not as stretching as that which is applied to other companies. Our analysis shows that it will still see Severn Trent as one of the poorest performers in this areas by 2030.

We are aware the some companies have challenged the use of the Drinking Water Quality customer contact PC as they rely on customer contacts to alert them to drinking water taste, odour and appearance issues, which they otherwise may not know about. In this context, 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.

### Bespoke PCs

We support Ofwat's decision to reject the *Frontier Catchments* and *Reducing disruption from our works* bespoke PCs. Although we are supportive of the intention behind the Frontier Catchments PC, we agree with Ofwat's view that the proposed measure – looking at number of farms rather than load reduction – is not robust enough to ensure that sufficient benefits are being delivered.

We expressed our view that the company had not done enough to demonstrate customer support for the reducing disruption PC – indeed many customers were openly opposed to it during the focus groups the company held.<sup>51</sup> We also agree with Ofwat's concern that the incentive could result in perverse behaviour (multiple short road openings) which would not deliver customer benefits.

### **Long term context**

Given the emphasis that Ofwat has placed on company's setting their plans in a long-term context at this price review, it is surprising to find so little information on the long-term delivery strategy in the draft determination documents.

The quality and ambition assessment comments state that Ofwat considers that its long term delivery strategy (LTDS) adaptive plan was "*well considered with detailed modelling*" and with "*appropriate trigger points and a monitoring plan*". This matches with our view of the work the

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<sup>51</sup> [Severn Trent Water: Additional bespoke performance commitment research July 2023](#)

company did in this area. They spent a lot of time discussing their LTDS with the Expert Challenge Panel (ECP) and commissioned additional customer research to obtain customers views on their proposals in response to the ECP's suggestion.

We note that Ofwat has identified discrepancies between the company business plan and the latest version of the WRMP and will look to understand more about the company's plan when the final WRMP is published in the summer.

### **Enquiries**

Enquiries about this consultation should be addressed to:

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