



The voice for water consumers
Llais defnyddwyr dŵr

CCW's submission the Competition and Markets Authority on Anglian Water's statement of case

22 April 2025

1. Introduction

- 1.1 The Consumer Council for Water (CCW) is the statutory consumer organisation representing household and non-household water and sewerage customers in England and Wales. We welcome the opportunity to submit evidence to the Competition and Markets Authority (CMA) on Anglian Water (ANG's) statement of case, where the company sets out its arguments and evidence in its request for a redetermination of Ofwat's final determination for 2025-30.
- 1.2 In our submission, we give a consumer's angle on the statement of case, and we also offer additional evidence and commentary to assist the CMA in its redetermination. This provides important context for the consideration of cost and financing allowances that are central to the dispute between ANG and Ofwat.

2. Executive Summary

- 2.1 Ofwat's annual Service Delivery reports¹ show that ANG is lagging in several measures of service delivery in the sector and has comparatively average customer satisfaction and trust despite industry-wide challenges².
- 2.2 The company's statement of case shows that its business plan for 2025-30 received a high level of customer support. But while 69% of customers found the package of improvements acceptable³, only 19% of customers found the plan affordable.
- 2.3 This is reflected in CCW's research into customer acceptability and affordability of the Ofwat draft determination in 2024⁴, where 39% of customers raised concerns with the affordability of the proposed bill increases⁵. Average ANG household bills increased by a further 16% in the final determination which will have exacerbated the affordability pressure for many customers.
- 2.4 In this context, the CMA's assessment of the cost and financing assumptions and associated efficiency challenges applied by Ofwat must not lose sight of evidence of what customers expect to receive as service and environmental improvements in 2025-30 and beyond, because research shows the majority of customers accepted the package. As a significant number of customers will have concerns with the affordability of the associated bill increase,

¹ See 2023-24 Ofwat Service Delivery Report [here](#)

² As shown in CCW annual Water Matters surveys. See 2024 report [here](#).

³ [anh91-aa-survey.pdf \(anglianwater.co.uk\)](#)

⁴ [CCW research to test the Ofwat PR24 Draft Determinations](#) shows 75% of Anglian customers found the package acceptable (page 41)

⁵ [CCW research to test the Ofwat PR24 Draft Determinations](#)

any redetermination must also not constrain the affordability support package the company has set to assist customers at risk of water poverty.

- 2.5 Any increase in cost and financing allowances to address what ANG sees as a £500 million totex gap will increase bills further (an additional 13% across the five years on the average bill if the company's arguments are accepted). Customers will want to see the redetermination show that costs are fair, efficient and allow the company to deliver on their expectations.
- 2.6 This package is the largest ever investment programme aimed at reducing sewage spills, renewing ageing assets and improving resilience. As a result, customers will expect to see tangible improvements in return for bill increases. CCW wants to see any funding increases in the redeterminations clearly linked to measurable improvements in service reliability and environmental protection, rather than just providing additional funds without clear benefits.

3. Our submission

Cost allowances

- 3.1 CCW cannot assess the technical merits of either ANG's or Ofwat's approaches to asset maintenance cost benchmarking and modelling. However, from a customer perspective, customers would expect the CMA to remove any poorly evidenced expenditure, inefficient costs and any proposed costs for activities that have been previously funded.
- 3.2 Customers should be assured that the latest evidence on asset deterioration, climate risks and independent cost assessments will inform decisions on efficient costs they need to pay to ensure delivery of a reliable service.
- 3.3 Evidence that ANG customers prioritise service reliability comes from multiple sources, including:
 - ANG's customer research - ANG's engagement activities to inform the PR24 business plan, such as surveys (qualitative and quantitative) and focus groups, show that customers place high importance on a safe, reliable water supply^{6, 7}.

⁶ See [ANG 2025-30 business plan](#) page 10.

⁷ [anh91-aa-survey.pdf](#)

- Independent consumer research - CCW reports also indicate strong customer demand for asset reliability⁸.

- 3.4 Based on CCW's engagement with the company and our scrutiny of the customer engagement that informed its business plan, ANG's research was robust and met the requirements and guidelines set by us and Ofwat.
- 3.5 Together, these sources suggest that ANG customers see asset reliability as essential to their everyday service, making it a critical factor in investment and regulatory decisions over the next several years.
- 3.6 To align with customer priorities, the CMA should assess whether Ofwat's cost modelling reflects the actual and future costs of asset maintenance. This assessment should ensure that the real costs and challenges of maintaining these assets are identified and that an appropriate efficiency incentive is applied.
- 3.7 Any additional funding should directly correspond to measurable improvements in service reliability - customers need to see the value and benefits of what any additional funding will deliver.
- 3.8 While there is evidence of ANG overspending in wholesale water expenditure in this price control period⁹ (though there is a small underspend on wholesale wastewater), it is important to recognise that if companies overspend, then the costs are shared between company and customers.

Related Performance Commitments and Outcome Delivery Incentives (ODIs)

- 3.9 Any proposed increase in bills must be justified by clear, measurable improvements in service reliability and environmental outcomes. At present, ANG is lagging behind the rest of the sector on leakage reduction, water supply interruptions and internal sewer flooding¹⁰, but states that the associated penalties for failure are disproportionate and would penalise the company even if it is performing at an industry-leading level.

⁸ [CCW's research on understanding customer priorities \(February 2025\)](#) places leakage as the 3rd highest priority. [CCW and Ofwat research on customer preferences for PR24 \(April 2022\)](#) placed water supply interruptions as some of the highest priorities, with leakage ranked 'medium'.

⁹ See [Ofwat Service and Delivery Report 2023-24](#) pages 30 and 31

¹⁰ See pages 14, 18 and 22 in [Ofwat's Service and Delivery Report 2023-24](#)

- 3.10 Performance Commitments levels and their associated ODIs should incentivise companies to invest in both immediate service improvements and long-term infrastructure resilience. They should also be challenging to achieve if financial rewards are to be paid by customers, reflect evidence of customers' priorities and address comparative poor performance.
- 3.11 CCW is happy with Ofwat's package of PC levels in its final determination, with the exception of phosphorus removal, business water use and supply interruptions (see paragraphs 3.31 to 3.33). The increased ambition in PC levels in all areas of service (apart from those three exceptions) should be upheld in the redetermination, especially if there is an increase in the associated cost allowances. There needs to be clear correlation between the allowance given and the level of ambition in the company's related PCs. We believe the downside risk is proportional to driving the right improvements for customers.

Price Control Deliverables

- 3.12 CCW supports PCDs as a way of giving customers and stakeholders transparency in what investment companies will deliver, when and at what cost. PCDs should expose failure, delays or under/over performance and allow bodies such as CCW to scrutinise and challenge delivery. They also act as an incentive for companies to deliver what is a significantly large investment programme in 2025-30. PCDs should be retained.
- 3.13 CCW would support some flexibility to prioritise investments where they are most needed. The regulatory regime for PCDs should allow companies to produce new compelling evidence of any risks or possible alternative solutions that were not available at the time determinations are made, that justifies a change to PCDs. This will help ensure customers' money returns value, by addressing the highest risks, while retaining transparency and a strong incentive to deliver.

True-ups and cost uncertainties

- 3.14 The redetermination must ensure that external cost uncertainties are not shifted onto customers without careful consideration. ANG (and indeed all companies) should absorb some of these risks through improved operational efficiency and prudent risk management. Uncertain cost allowances must not automatically pass on to customer bills, especially during a price control period that is already placing a heavy burden on customers' bills.

- 3.15 A balance should be established so that customers are not overpaying for what are cost uncertainties during 2025-30, while avoiding a potential ‘bill spike’ for customers in 2030-31 due to an excessive number of upward cost true-ups.

Resilience and risks with extreme weather events

- 3.16 ANG has been allowed £81 million in its final determination to increase the resilience of its assets, including from the effects of power outages and extreme flooding¹¹.
- 3.17 The Ofwat final determination should not be increased in a way that transfers the full financial burden of extreme weather risks to customers, when effective asset management measures could mitigate some of these risks. The assumed rate of return also incorporates risks to the business from penalties and other financial sanctions if failure occurs, including those associated with extreme weather events.
- 3.18 However, CCW would value an assessment of whether Ofwat has made the right balance between serving the needs of customers now and in the future as part of the appeals process. Customers should not bear the higher long-term costs resulting from deferred investments.

Financeability

- 3.19 The Weighed Average Cost of Capital (WaCC) directly impacts how much water companies can recover through revenues, and it is a key driver of bills. Given the recent path of economic indicators, including interest rates and inflation, the CMA’s redetermination presents an opportune time to review Ofwat’s WaCC methodology, assumptions and potential impacts.
- 3.20 To inform the CMA’s assessment, CCW has commissioned an independent report from MCC Economics (included as an appendix with our submissions). The report analyses whether Ofwat’s view of the WaCC is a reasonable central estimate in the context of the overall risk/return framework. MCC’s report considers (a) the methodology adopted (b) the data used and (c) the regulatory judgement applied.
- 3.21 Key findings in the report:

¹¹ See page 15 of [Anglian Water’s PR24 Final Determination](#)

- Ofwat's PR24 final determinations lean toward the upper bounds of WaCC components. This may overstate the returns required for a notionally efficient water company.
- Ofwat's principle that companies bear the risk of deviating from the notional structure was not consistently applied. Risk has arguably been shifted from shareholders to customers.
- Ofwat included data from companies with high gearing and low credit ratings. These conditions stem from shareholder decisions, not market pressures.
- With embedded debt, Ofwat relied on actual debt issuance, including inefficiently financed companies. For new debt, Ofwat added a 30bps benchmark adjustment without sufficient justification.
- Ofwat's beta values may be overstated. MCC advocates for lower beta values and suggests using alternative models better volatility representation.

3.22 Based on this analysis and evidence, MCC Economics recommends:

- Setting a lower WaCC consistent with market evidence and notional company efficiency. MCC estimates the WaCC could have been 1.08% lower, saving £5.4 billion over 5 years, or £41 per household per year.
- Allocating risks to companies rather than customers to avoid rewarding inefficient financial structures at customer's expense.

Gearing

3.23 High gearing increases companies' financial risk and ultimately exposes customers to higher costs. As of 31 March 2024, ANG's gearing at 68.9%¹² is substantially higher than Ofwat's notional benchmark of 55% for PR24.

3.24 As part of its redetermination, the CMA should assess whether ANG's gearing is sustainable in the long term. CCW questions whether a more balanced approach to capital financing

¹² Page 56 of [Anglian's Annual Performance Report 2023-24](#)

would protect customers from the risks of volatile borrowing costs, particularly in the current uncertain economic outlook.

Customer engagement – evidence of priorities and expectations

- 3.25 Household water customers cannot switch suppliers if they're unhappy with their bills or the service they receive. In a competitive market, customers finding either of these things unacceptable would simply move to a different supplier and water companies would lose customers. Therefore, giving customers the opportunity to have their say on areas such as customer priorities, service improvements, acceptability and affordability of business plans provides insight into whether the plans have got it right for customers.
- 3.26 Based on CCW's engagement with the company and our scrutiny of the customer engagement it used to inform the business plan, the overall standard of ANG's research is good. It set research objectives and used research materials suitable for customers and consumers without expert knowledge of the company and industry. We saw good evidence of accepting feedback from both us and the company's Independent Challenge Group on proposed research materials.
- 3.27 Overall, we are happy that ANG's business plan reflected the priorities of its customers and wish to see the CMA's redeterminations drive outcomes that address this. We were disappointed that it was not possible to understand how customer preferences were considered in Ofwat's decisions.

Customer acceptability and affordability

- 3.28 CCW commissioned quantitative research to test the package of bill changes, service improvements and investments in Ofwat's draft determination for customer acceptability and affordability¹³. This included surveys with a sample of 488 of ANG's household customers.
- 3.29 Our research revealed:
- 39% of customers found the draft determinations' proposed bill increases unaffordable.

¹³ [CCW Draft Determination testing research \(November 2024\)](#)

- 75% found the package of investment and service delivery improvements to be acceptable.
- After being reminded of the bill increase, customers were asked again if they found the package acceptable, and this figure dropped to 59%.

- 3.30 The average household customers' bill increased by a further 10% before inflation between the Draft and final determination, so this will have added greater pressure in customer affordability.
- 3.31 While customers will find a further bill increase above the final determination difficult to afford, they broadly support what the package should deliver. In this context, whatever changes are made to address cost allowances, the CMA's redeterminations must retain most of the service and environmental improvements that the final determination set. We set out in paragraphs 3.31 to 3.33 where we want to see more stretching targets.
- 3.32 ANG plans to increase the number of households receiving affordability support from 104,000 to 230,000 (through increased cross subsidy to its social tariff to £12) by 2030, along with the new Medical Needs Discount, funded by shareholders. The affordability support must be also retained, whatever the outcome of the redeterminations. We would like to see the company align with other companies with an aim to eliminate water poverty, as per the public interest commitment in made by Water UK in 2019.¹⁴

Other issues

Phosphorus

- 3.33 In its final determination, Ofwat deemed ANG's requested allowance for reducing phosphorus levels to be more efficient than the regulator's benchmark estimate. As a result, it awarded the company £952 million - £458 million more than ANG had originally requested¹⁵.
- 3.34 We find it concerning that Ofwat has intervened to increase costs despite ANG's plan demonstrating that it can deliver the required outputs and improvements more efficiently. CCW requests that the CMA review this decision. If ANG can reliably meet these statutory

¹⁴ [Water UK public interest commitment 2019](#)

¹⁵ See [Anglian Water Final Determination overview](#) page 6

requirements at a lower cost to customers, its position should be accepted and reflected in the redetermination.

Supply interruptions

- 3.35 CCW wants to see the company's business plan targets for water supply interruptions accepted in the CMA's redetermination. A safe and reliable supply of water has consistently been customers' number one ask (see paragraph 3.3).

Business water use

- 3.36 The business water use reduction target is not as large as the company put forward in their business plan. Given the water-stressed status of the region, CCW wants to see the company's targets accepted in the CMA's review.

Customer Experience (C-MeX) measures

- 3.37 CCW is disappointed that, despite extensive engagement with Ofwat, an additional metric to measure customer complaint volumes is not part of the proposed range of C-MeX components in the final determination or set as a standalone metric.
- 3.38 Our annual complaints reports¹⁶ show a continued increase in customer complaints across the sector 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.
- 3.39 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.
- 3.40 Ofwat has shown how companies C-MeX performance has worsened over the current price control period¹⁷. The CMA's redetermination is an opportunity for the Authority to add a separate performance commitment and ODI on the volume of complaints.

¹⁶ [Household customer complaints report 2024 - CCW](#)

¹⁷ [Ofwat's annual C-MeX reports](#) show NWG 's scores have dropped from 85.76 points in 2020-21 to 81.4 in 2023-24. While NWG have consistently been top 3 performers in C-MeX, this illustrates a general downward trend with many companies' performance.

Enquiries

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