



The voice for water consumers
Llais defnyddwyr dŵr

CCW's submission the Competition and Markets Authority on Northumbrian 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 consumers in England and Wales.
- 1.2 We welcome the opportunity to submit evidence to the Competition and Markets Authority (CMA) on Northumbrian Water (NWG's) statement of case, setting out the company's arguments and evidence in its request for a redetermination of Ofwat's final determination for 2025-30.
- 1.3 In our submission, we also offer additional evidence and commentary to assist the CMA in its redetermination and to provide important context for the consideration of cost and financing allowances that are central to the dispute between NWG and Ofwat.

2. Executive Summary

- 2.1 Ofwat's annual Service Delivery reports¹ show that NWG has a track record as one of the top performers in the sector and has comparatively higher 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 support³. We reviewed and were satisfied with this evidence based on our engagement with the company.
- 2.3 This customer sentiment is reflected in the 77% customer acceptability of the Ofwat draft determination in 2024 for NWG⁴. This is despite 31% of NWG's customers raising concerns with the affordability of the proposed bill rises. The average bill increased by a further 10% 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 account for what customers expect to receive as service and environmental improvements in 2025-30 and beyond

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

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

³ See page 34 of [Northumbrian Water's statement of case](#) for a summary

⁴ [CCW Draft Determination testing research \(November 2024\)](#)

- Must not constrain the affordability support package the company has set to assist customers at risk of water poverty

- 2.5 CCW expects any redeterminations to show customers that costs are fair, efficient and allow the company to deliver customer expectations. NWG's final determination package had broad support from customers, so they will expect to see tangible improvements in return for any further bill increases.
- 2.6 Any increase in cost and financing allowances will increase bills further by up to £35 across the five years on the average bill if the company's arguments are accepted⁵. 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

Asset risk management and associated cost allowances

- 3.1 NWG argues that the final determination allowance is insufficient to keep pace with asset maintenance needs. To support this, NWG cites evidence of past overspending, which it believes highlights flaws in Ofwat's comparative benchmarking of asset maintenance costs, particularly for service reservoirs and mains renewals.
- 3.2 However, Ofwat's Service Delivery Report shows only a comparatively minor net overspend in water and wastewater combined totex, with a cumulative overspend of 15% in wholesale water in 2020 to 2024, but a cumulative underspend in wholesale wastewater of 10% in the same period.⁶
- 3.3 CCW cannot assess the technical merits of either NWG's or Ofwat's approaches to asset maintenance cost benchmarking and modelling. But customers must be assured that the CMA has removed any poorly evidenced expenditure, inefficient costs and any proposed costs for activities that have been funded previously.

⁵ As confirmed on page 17 of [Northumbrian's statement of case](#)

⁶ See pages 29 to 31 in [Ofwat's Service Delivery Report 2023-24](#)

- 3.4 Customers should also be assured that the latest evidence on asset deterioration, climate risks and independent cost assessments inform decisions on efficient costs they need to pay to ensure delivery of a reliable service.
- 3.5 Evidence that NWG's customers prioritise reliability for the 2025-30 period comes from multiple sources:
- The company's customer research - NWG's engagement activities, such as surveys and focus groups, consistently show that customers place high importance on a reliable water supply⁷, particularly in light of aging infrastructure and climate change concerns⁸. CCW is satisfied with the quality of the research.
 - Independent consumer research - CCW reports also indicate strong customer demand for asset reliability⁹.
- 3.6 Together, these sources suggest that NWG's customers see reliability as essential to their everyday service, making it a critical factor in investment and regulatory decisions over the next several years.
- 3.7 The CMA's review should explicitly link the adequacy of asset maintenance funding to the service reliability and drinking water quality priorities that matter most to customers. Any additional funding should directly correspond to measurable improvements in service quality. Customers need to see the value and benefits of what any additional funding will deliver.
- 3.8 While there is evidence of NWG overspending its wholesale water cost allowances¹⁰, it is important to recognise that if companies overspend then the costs are shared between company and customers.

Related Performance Commitments (PCs)

⁷ See [Northumbrian Water's Business Plan 2025-30](#) page 47, [Northumbrian PR24 outcomes appendix](#) page 39, and [Northumbrian Water Research Report on Prioritisation of Performance Commitments](#) page 5

⁸ Examples include [NWL's customer valuations for service improvements \(January 2023\)](#), which placed resilience risks at the upper end of the scale of priority: mains bursts (2nd), sewer blockages, leakage (equal 3rd), sewer collapse (6th), although unplanned outage was lower in the scale (19th).

⁹ [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 one of the highest priorities, with leakage ranked 'medium'.

¹⁰ As shown in [Ofwat's Service and Delivery Report 2023-24](#). Page 30 shows significant overspend compared to Ofwat's PR19 water totex allowance.

- 3.9 Any proposed increase in bills must be justified by clear, measurable improvements in service reliability and environmental outcomes. CCW was disappointed to see Ofwat decrease the ambition of the Performance Commitment level for water supply interruptions applied to NWG in the final determination¹¹ as this relates to an area of service customers clearly said is a priority.
- 3.10 NWG's ambition for this measure in its business plan should be applied in the redetermination, as the company's current performance for supply interruptions is lagging¹².

Price Control Deliverables (PCDs) and Outcome Delivery Incentives (ODIs)

- 3.11 In principle, 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 should also act as an incentive for companies to deliver what is a significantly large investment programme in 2025-30. On this basis PCDs should be retained.
- 3.12 CCW supports 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 were made that justify 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.
- 3.13 Performance Commitment 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. Overall, CCW considers that the ODI downside risk is justified as it should drive the right improvements.

¹¹ Set at average 5mins lost per customer by 2030, compared to 4mins in the company business plan.

¹² [Ofwat Service and Delivery Report 2023-24](#) page 18 shows that NWG are poorer than their current Performance Commitment level. Page 19 shows that they only achieved under 5.00mins in 2020-21. Their 2023-24 performance was 5.32mins versus the target of 5.23 mins.

True-ups and cost uncertainties

- 3.14 The redetermination must ensure that external cost uncertainties are not shifted onto customers without careful consideration. NWG (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 The CMA's redetermination should establish a balance, so that customers are not overpaying in bills now 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 at the end of 2025-30.

Resilience and risks with extreme weather events

- 3.16 NWG has been allowed £199 million in its final determination to increase the resilience of its assets, including from the effects of power outages and extreme flooding¹³.
- 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. However, we 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.
- 3.18 NWG's submission document highlights that climate change forecasts predict more frequent and intense extreme weather events. For example, it cites Storm Eowyn in January 2025, which resulted in significant power outages and 29 pollution incidents in the North-East. This underscores the vulnerability of the water network to extreme weather.
- 3.19 NWG points out that the regulatory framework currently allocates the full risk of severe weather events to the companies themselves¹⁴. However, this does not acknowledge:
- The allowance already made in the Ofwat final determination for asset resilience, which includes protecting assets from extreme weather events

¹³ See page 14 of [Northumbrian Water's PR24 Final Determination](#)

¹⁴ Paragraph 35 in [Northumbrian's statement of case](#)

- How the assumed rate of return incorporates risks to the business from penalties and other financial sanctions if failure occurs, including those associated with extreme weather events

Financeability

3.20 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.

3.21 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.

3.22 Key findings in the report:

- 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 for better volatility representation.

3.23 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

3.24 High gearing increases companies' financial risk and ultimately exposes customers to higher costs. As of 31 March 2024, NWG's hearing at 70%¹⁵ is substantially higher than Ofwat's notional benchmark of 55% for PR24. The company is also categorised as 'elevated concern' in Ofwat's assessment of financial resilience and has a negative credit rating outlook¹⁶.

3.25 As part of its redetermination, the CMA should assess whether NWG's gearing is sustainable in the long term. CCW questions whether a more balanced approach to capital financing would protect customers from the risks of volatile borrowing costs particularly in the current uncertain economic outlook

Customer engagement – evidence of priorities and expectations

3.26 Household customers cannot switch water supplier 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 customer priorities, service improvements, acceptability and affordability of business plans provides insight into whether the plans have got it right for customers.

3.27 Based on CCW's engagement with the company and our scrutiny of the customer engagement that informed its business plan, the overall standard of NWG's research was

¹⁵ Page 111 of [Northumbrian's Annual Performance Report 2023-24](#)

¹⁶ As per [Ofwat's 2023-24 'Monitoring Financial Resilience Report'](#)

good. The CMA should have confidence that the company's evidence of customers' priorities and expectations is sound. We explain this in our assessment of the company's business plans and the evidence used to support them¹⁷. There was also clear evidence of NWG using customer views¹⁸ in its business plan¹⁹.

3.28 Overall, CCW is happy that NWG's business plan reflected the priorities of its customers. We want any CMA redeterminations to drive outcomes that address this.

3.29 NWG's customer research shows that customers support what its Water Industry National Environment Programme (WINEP) will deliver. Customer evidence shows support for NWG's use of some nature-based and partnership solutions rather than traditionally engineered solutions, as a more sustainable approach.

3.30 CCW's own research shows that where potential benefits to customers and the environment of nature-based solutions can be clearly shown, there was customer strong support for them, even if it meant waiting longer or paying more²⁰

3.31 The final determination has provided no new evidence to convince CCW how much Ofwat took customer's views into consideration in its decisions. In CCW's response to Ofwat's draft determination, we noted that:

- Outside the brief mention within the quality assessment summary there was little explanation of how much Ofwat has assessed the level of customer engagement and challenge of the business plan, or how it may have influenced its determinations.
- In the main *Delivering Outcomes for Customers and the Environment* document²¹ 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 commitment²².

¹⁷ See 'customer engagement' section of [our assessment of PR24 business plans](#).

¹⁸ [Customer prioritisation of common performance commitments](#)

¹⁹ [NWG's approach to developing PC's and outcomes](#)

²⁰ [CCW's "Keen to go Green" Research](#)

²¹ page 4 <https://www.ofwat.gov.uk/wp-content/uploads/2024/07/PR24-draft-determinations-Northumbrian-Water-Quality-and-ambition-assessment-appendix.pdf>

²² Page 11 <https://www.ofwat.gov.uk/wp-content/uploads/2024/07/PR24-draft-determinations-Deliveringoutcomes-for-customers-and-the-environment-1.pdf>

- There is also a line in *Your Water Your Say* report ²³ that suggests that a larger suite of evidence has been considered: “*Evidence from ‘Your water, your say’ survey forms part of the suite of evidence of customers’ and stakeholders’ views that we have considered for our draft determination*”. However, CCW cannot find the larger suite of evidence in the supporting published documents.
- Ofwat’s comments on NWG’s specific engagement is limited to four lines, stating that it is “*broadly in line with our minimum expectations*” but commenting that while research materials were published, some could have been more neutral.

3.32 Given the scale of research and engagement that took place to inform the company’s business plan, including the work of the Customer Engagement Panel in pushing the company to go further, summarising this effort in a few lines sends a signal that customers’ views have not been adequately considered by Ofwat.

3.33 The CMA’s redetermination should be more explicit in how evidence from customers has been considered. This will help restore trust in the industry and can contribute to perceptions of fairness and value for money.

Customer acceptability and affordability

3.34 CCW commissioned quantitative research to test the package of bill changes, service improvements and investments in Ofwat’s draft determination for customer acceptability and affordability²⁴. This included surveys with a sample of 504 of Northumbrian’s household customers.

3.35 31% of customers found the draft determinations’ proposed bill increases unaffordable, though 77% 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 62%.

3.36 The average household customers’ bill increased by a further 10% before inflation between the Draft and final determination. CCW’s research shows that while a high proportion of customers

²³ <https://www.ofwat.gov.uk/wp-content/uploads/2024/07/Your-Water-Your-Say-survey-findings-of-watercompanies-business-plans-1.pdf>

²⁴ [CCW Draft Determination testing research \(November 2024\)](#)

will find a further bill increase above the final determination difficult to afford, they broadly support what the package should deliver.

- 3.37 In this context, whatever changes are made to address cost allowances, the CMA's redeterminations must retain the outputs for customers and the environment that the final determination set.
- 3.38 We are also supportive of the affordability plan that NWG has put in place for 2025-30 and its commitment to end water poverty which will see no customer spending more than 5% of their income on water and wastewater bills by 2030. This must be also retained, whatever the outcome of the redeterminations.

Bill profile

- 3.39 CCW knows from the engagement²⁵ NWG carried out with its customers for its business plan that they prefer a smooth bill profile. So we would like this applied in the redetermination, with any increase equalised across the remainder of the price control period.

Other issues

Customer Experience (C-MeX) measures

- 3.40 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.
- 3.41 CCW's annual complaints reports²⁶ 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. Yet there is no regulatory financial incentive to reduce complaint volumes.
- 3.42 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.

²⁵ Page 70: [NWL deliberative research into complex bill drivers](#)

²⁶ [Household customer complaints report 2023 - CCW](#)

- 3.43 Ofwat has shown how companies' C-MeX performance has worsened over the current price control period²⁷. The CMA's redetermination is an opportunity to either expand C-MeX to include complaint volumes or add a separate performance commitment and ODI on the volume of complaints.

Enquiries

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²⁷ [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.