



The voice for water consumers  
Llais defnyddwyr dŵr

# **CCW's submission the Competition and Markets Authority on South East 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. We welcome the opportunity to submit evidence to the Competition and Markets Authority (CMA) on South East Water's (SEW'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.
- 1.2 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 SEW and Ofwat.

## 2. Executive Summary

- 2.1 Ofwat's annual Service Delivery Reports<sup>1</sup> show that SEW has a comparatively poor track record for water supply interruptions and leakage reduction. CCW's annual tracking survey, Water Matters <sup>2</sup>, shows it has comparatively lower than average customer satisfaction and trust. Any redetermination of the company's 2025-30 price settlement must deliver improvements to help turn around these declining trends.
- 2.2 The company's 2025-30 business plan received 89% acceptability from customers, while only 20% found the proposed bill increase to be affordable<sup>3</sup>.
- 2.3 When CCW tested the acceptability and affordability of Ofwat's draft determination for SEW<sup>4</sup>, we found:
- the acceptability of the plan had decreased (to 67%)
  - an increased percentage found Ofwat's prices affordable (32%)
  - a significant 38% of customers raised concerns with the affordability of the proposed bill rises in the draft determination
  - acceptability of the package dropped further to 55% when customers were reminded of the bill increase

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<sup>1</sup> See 2023-24 Ofwat Service Delivery Report [here](#)

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

<sup>3</sup> South East Water [Business Plan 2025-30](#) page 1

<sup>4</sup> Can be downloaded from the water company reports at the bottom of the page [Draft determinations research - CCW](#)

- 2.4 The average SEW bill saw a higher increase of £55 increase (water only and before inflation) from 2024-25 in the Final determination, which will have increased the number of SEW customers who will find the 2025-30 bill prices unaffordable.
- 2.5 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. Also, it must not constrain the affordability support package the company has set to assist customers at risk of water poverty.
- 2.6 Any increase in cost and financing allowances to address what SEW sees as a £356 million funding gap will increase bills further (an additional £54 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, encourage efficiency and allow the company to deliver on their expectations.
- 2.7 Customers will also 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**

#### **Asset risk management and associated cost allowances**

- 3.1 SEW disputes Ofwat's base cost allowances, arguing that inconsistencies in calculations and flaws in comparative benchmarking and the resulting expenditure allowances in the Final determination are insufficient to deliver the resilience and reliability improvements its customers want to see.
- 3.2 CCW cannot assess the technical merits of either SEW'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.

- 3.3 Customers should be assured that the latest evidence on asset deterioration, climate risks and independent cost assessments inform decisions on efficient costs. They must not pay twice to fund improvements that should have been delivered in the past.
- 3.4 Evidence that SEW customers prioritise a reliable water supply for the 2025-30 period comes from the company and CCW's research:
- Company customer research - SEW's business plan and related documents detail the range of sources of evidence which set 'reliable water supply' with the highest-ranking status in customers' order of priorities<sup>5</sup>
  - Independent consumer research - CCW reports also indicate strong customer demand for asset reliability<sup>6</sup>.
- 3.5 Together, these sources suggest that SEW 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 SEW overspending in wholesale water expenditure in this price control period<sup>7</sup>, it is important to recognise that if companies overspend then the costs are shared between company and customers.

#### Related Performance Commitments (PCs)

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<sup>5</sup> See [SEW 2025-50 Business Plan](#) page 12, [Engaging with Customers, Communities and Stakeholders](#) see chapter 11.

<sup>6</sup> [CCW's research on understanding customer priorities \(February 2025\)](#) places leakage as the 3<sup>rd</sup> 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'.

<sup>7</sup> See [Ofwat Service and Delivery Report 2023-24](#) page 30

- 3.9 Any proposed increase in bills must be justified by clear, measurable improvements in service reliability and environmental outcomes.
- 3.10 SEW's statement challenges the PC target for water supply interruptions, an area of service where SEW has been a consistently poor performer<sup>8</sup>. As noted previously, reliable water supply is a top priority, so customers would expect an ambitious target to drive tangible improvement in return for the bill increase. It should be noted that the five-minute target is the same for all water companies, so achieving it is in line with achieving industry-wide expectation. Delivery of this is made more pertinent if the cost allowance to deliver it is increased.
- 3.11 Similarly, if the base cost allowance for asset maintenance is to increase in the redetermination, there needs to be clear correlation between the allowance given and the level of ambition in the company's related PCs, including leakage reduction, where the company is also lagging behind<sup>9</sup>.

### **Price Control Deliverables and Incentives**

- 3.12 CCW supports Price Control Deliverables (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.
- 3.13 CCW does 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 were 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.

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<sup>8</sup> See [Ofwat Service and Delivery Report 2023-24](#) page 18

<sup>9</sup> See [Ofwat Service and Delivery Report 2023-24](#) page 14

- 3.14 SEW argues that Outcome Delivery Incentives (ODIs) have created a situation where companies face substantial penalties when they fail to meet stringent performance targets and highlight the downside risk of the ODI applied to water supply interruptions.
- 3.15 However, the company should be challenged and sufficiently incentivised to improve in an area of service where they are comparatively poor performers and where customers place a high level of priority. New Guaranteed Standards Scheme payments for service failure to customers should further incentivise the company to improve delivery.
- 3.16 SEW also challenges how Ofwat has set targets for its Customer Experience (C-MeX) incentive, arguing that the methodology for these measures contains regional biases that disadvantage the company.
- 3.17 SEW is currently below average in its C-MeX performance<sup>10</sup>. SEW's very poor performance on water supply interruptions would have influenced customer experience negatively, and it is the company's job to turn this situation round. There should be no change in the company's target on customer service experience, as every company has circumstances that are unique to it and give it a disadvantage in some way.

### **True-ups and cost uncertainties**

- 3.18 The redetermination must ensure that external cost uncertainties are not shifted onto customers without careful consideration. SEW (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.
- 3.19 A balance should be established so that customers are not over-paying 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**

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<sup>10</sup> See [Ofwat 2023-24 C-MeX results](#) where SEW are 15<sup>th</sup> out of 17 companies

- 3.20 SEW has been allowed £266 million in its final determination to increase the resilience of its assets, including from the effects of power outages and extreme flooding<sup>11</sup>.
- 3.21 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.
- 3.22 However, as part of the appeals process, CCW would value an assessment of whether Ofwat has made the right balance between serving the needs of customers now and in the future. Customers should not bear the higher long-term costs resulting from deferred investments.

### **Financeability**

- 3.23 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.
- 3.24 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.
- 3.25 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 been shifted from shareholders to customers.

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<sup>11</sup> See page 12 of [South East Water's PR24 Final determination](#)

- Ofwat included data from companies with high gearing and low credit ratings. These conditions stem from shareholder decisions, not market pressures.
- Regarding 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.

3.26 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 - that's £41 per household per year.
- Allocating risks to companies rather than customers to avoid rewarding inefficient financial structures at customers' expense.

### Gearing

3.27 High gearing increases companies' financial risk and ultimately exposes customers to higher costs. As of 31 March 2024, SEW's gearing at 79%<sup>12</sup> is substantially higher than Ofwat's notional benchmark of 55% for PR24. The company is also categorised needing increased financial monitoring in Ofwat's assessment of financial resilience<sup>13</sup>.

3.28 As part of its redetermination, the CMA should assess whether SEW'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**

<sup>12</sup> Page 50 of [South East Water's Annual Performance Report 2023-24](#)

<sup>13</sup> As per [Ofwat's 2023-24 'Monitoring Financial Resilience Report'](#)



- 3.29 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.
- 3.30 CCW was unable to provide assurance on the quality of the customer engagement or how the company used its customer engagement evidence to inform its business plan. This is reflected in the company's Independent Challenge Group's (ICG) challenge log (C25 and C26)<sup>14</sup>. We also noted how Ofwat's quality assessment showed SEW's engagement with its customers did not meet minimum expectations in 2 of the 5 areas that were analysed.
- 3.31 Although we were not given an opportunity to fully assure the evidence, SEW produced a document drawing a line of sight between what it had heard from customers and how it had amended its plans based on what it learned to reflect the customer feedback<sup>15</sup>.
- 3.32 In this context, SEW's business plan appears to have reflected the priorities of its customers. Based on this and our limited scrutiny of what the company provided to CCW and the ICG, we wish to see the CMA's redeterminations drive outcomes that deliver customers' priorities. We were disappointed that it was not possible to understand how customer preferences were considered in Ofwat's decisions.

### **Customer acceptability and affordability**

- 3.33 CCW commissioned quantitative research to test the package of bill changes, service improvements and investments in Ofwat's draft determination for customer acceptability and affordability<sup>16</sup>. This included surveys with a sample of 520 of SEW's household customers.
- 3.34 The survey revealed that:
- 38% of customers found the proposed bill increase (£16 on the average bill before inflation 2025-30) unaffordable.
  - 67% found the package of investment and service delivery improvements to be acceptable.

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<sup>14</sup> [CCG Log of Challenges Recommendations Log - last review 29.09.23 -WEBSITE.xlsx](#)

<sup>15</sup> [Engaging with Customers Communities and Stakeholders.pdf](#)

<sup>16</sup> [CCW Draft determination testing research \(November 2024\)](#)

- After being reminded of the bill increase, customers were asked again if they found the package acceptable, and this figure dropped to 55%.

- 3.35 The average household customers' bill increased by a further £39 before inflation between the Draft and Final Determination, so this will have added greater pressure in customer affordability.
- 3.36 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 the service and environmental improvements that the Final Determination set.
- 3.37 Any increase in costs and bills will need an increase in the affordability support for customers that SEW should offer. SEW's water poverty scheme for 2025-30 aims to ensure customers are not paying more than 2.5% of their household income on water bills.
- 3.38 CCW supports<sup>17</sup> the company's plans to increase the social tariff provision from 6% of households in 2020-25 to 10% by 2030. This financial support must be retained in the CMA's redetermination.

## **Other issues**

### Customer Experience (C-MeX) measures

- 3.39 We are 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.
- 3.40 Our annual complaints reports<sup>18</sup> 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.
- 3.41 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.

<sup>17</sup> Page 11, [Overview-of-South-East-Waters-PR24-draft-determination.pdf](#)

<sup>18</sup> [Household customer complaints report 2024 - CCW](#)

3.42 Ofwat has shown how companies C-MeX performance has worsened over the current price control period<sup>19</sup>. The CMA's redetermination is an opportunity for the Authority to add a separate performance commitment and ODI on the volume of complaints.

## Enquiries

Enquiries about this submission should be addressed to:

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<sup>19</sup> [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.