



The voice for water consumers
Llais defnyddwyr dŵr

CCW's submission the Competition and Markets Authority on Wessex 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 Wessex Water (WSX'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 WSX and Ofwat.

2. Executive Summary

- 2.1 Ofwat's annual Service Delivery reports show that WSX has a slightly above average track record for service delivery in the sector, at or better than their Performance Commitment levels in 7 out of 12 regulatory measures¹. However, as with many other companies in the sector, WSX has seen a reduction in levels of customer satisfaction and trust in recent years in the context of industry-wide challenges².
- 2.2 The company's statement of case shows that its business plan for 2025-30 was informed by evidence of customers' priorities and expectations from a wide range of sources. 58% of customers found the company's business plan to be acceptable and only 16% said the company's proposed bill increase (36% before inflation on the average bill) was affordable³. This was just below average customer acceptability and affordability of business plans across the England and Wales sector⁴.
- 2.3 Throughout the PR24 process, WSX engaged well with its independent Challenge Group and with CCW on its customer research and engagement and how it was used to inform the business plan. This evidence was gathered and interpreted to our satisfaction.
- 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. Also, it

¹ See page 6 of [Ofwat's Service Delivery Report 2023-24](#)

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

³ WSX Affordability and Acceptability Testing [here](#).

⁴ This ranged from 44% to 84% acceptability and 11% to 25% affordability

must 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 will increase bills further (up to 9% more than the final determination across the five years on the average bill if the company's arguments are accepted). CCW expects the CMA to ensure the redeterminations show customers that costs are fair, efficient and allow the company to deliver customer expectations on service and the environment.
- 2.6 This package is its largest ever investment programme the company has had to deliver. 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

Expenditure allowances

- 3.1 While CCW cannot assess the technical merits of either WSX's or Ofwat's approaches to base and enhancement cost benchmarking and modelling, 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.
- 3.2 Customers should 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.
- 3.3 CCW recognises the importance of increased asset maintenance for reliable service delivery, but there needs to be transparency and accountability in how the additional funds are spent. Any higher spending allowed by the CMA should directly translate into improved service quality and long-term resilience, without passing excessive costs on to consumers.

- 3.4 While there is evidence of WSX overspending its expenditure allowances since 2020⁵, it is important to recognise that if companies-overspend, then the costs are shared between company and customers.

Performance Commitments, Price Control Deliverables and Incentives

- 3.5 Any proposed increase in bills must be justified by clear, measurable improvements in service reliability and environmental outcomes.
- 3.6 Performance Commitments and their associated Outcome Delivery Incentives (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.
- 3.7 CCW believes that the package of Performance Commitments in WSX's final determination addresses both poor performance in areas of service⁶ and customers' priorities⁷.
- 3.8 WSX's Statement of Case highlights that some Performance Commitment levels come with severe downside risks in the associated ODIs, meaning that even a small deviation from target levels could result in substantial financial penalties. However, CCW believes that the downside risk is justified as it should drive improvements in comparatively poor performance and customer priorities.

Price Control Deliverables (PCDs)

- 3.9 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.

⁵ [Ofwat's 2023-24 Service and Delivery Report](#) shows a cumulative overspend since 2020 of 18% for wholesale water and 5% for wholesale wastewater (pages 30 and 31)

⁶ Five metrics (leakage, per capita consumption, water supply interruptions, internal sewer flooding and pollution incidents) as shown in [Ofwat's 2023-24 Service and Delivery Report](#) page 6

⁷ Summarised on page 179 of [Wessex Water's PR24 Business Plan overview](#)

3.10 However, 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.

Additional funding

3.11 Specific additional allowances are requested - £47 million for new disinfection improvements and £178 million for bioresources health and safety measures – alongside a broader increase in wholesale water base costs and phosphorus removal allowances.

3.12 CCW accepts that WSX has obligations to upgrade disinfection at water treatment centres and remove phosphorus, driven by expectations from the Drinking Water Inspectorate (DWI) and the Water Industry National Environment Programme (WINEP). In the current regulatory framework, the costs associated with moving away from marginal chlorination (which is inadequate under new standards) toward a more robust disinfection process are not included in Ofwat's base cost models.

3.13 CCW believes there should be scrutiny on the health and safety expenditure requirements to ensure that customers are not paying for:

- Issues that may already be factored into the Final determination cost allowances
- For standards that the company should have met at its treatment centres in the past within cost allowances it had previously received.

3.14 As it determines an efficient cost for these additional improvements, the CMA should assure customers any new investment commitments are necessary and cost-effective. This should also be incentivised through PCDs that will ensure accountability and transparency in how these funds are deployed to protect water quality.

True-ups and cost uncertainties

3.15 The redetermination must ensure that external cost uncertainties are not shifted onto customers without careful consideration. WSX (and indeed all companies) should absorb some of these risks through improved operational efficiency and prudent risk management.

- 3.16 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.
- 3.17 A balance should be established so that customers are not over-paying 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.

External risk factors

- 3.18 WSX has been allowed £35 million in its final determination to increase the resilience of its assets, including from the effects of power outages and extreme flooding⁸.
- 3.19 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.
- 3.20 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

- 3.21 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.
- 3.22 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.

⁸ See page 15 of [Wessex Water's PR24 Final determination](#)

3.23 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 better volatility representation.

3.24 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

3.25 High gearing increases companies' financial risk and ultimately exposes customers to higher costs. As of 31 March 2024, WSX's gearing at 69%⁹ 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 resilience¹⁰.

⁹ Page 24 of [Wessex's Annual Performance Report 2023-24](#)

¹⁰ As per [Ofwat's 2023-24 'Monitoring Financial Resilience Report'](#)

3.26 As part of its redetermination, the CMA should assess whether WSX'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

3.27 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.

3.28 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.

3.29 Based on CCW's engagement with the company and our scrutiny of the customer engagement it did to inform the business plan, the overall standard of WSX's research was good¹¹. Both the company's research objectives and research materials were suitable for customers and consumers without expert knowledge of the company and industry.

3.30 The CMA should have confidence that the company's evidence of customers' priorities and expectations is sound. This is explained in our assessment of the company's business plans and the evidence used to support them. There was also clear evidence of WSX using customer views in their business plan.

3.31 While it is unclear to what extent customer engagement evidence impacted on Ofwat's decision making in its determinations, CCW is happy that WSX's business plan reflected the priorities of its customers and we want to see the CMA's redeterminations drive outcomes that address this.

Customer acceptability and affordability

¹¹ See 'customer engagement' section of [our assessment of PR24 business plans](#).

- 3.32 CCW commissioned quantitative research to test the package of bill changes, service improvements and investments in Ofwat's Draft determination for customer acceptability and affordability¹². This included surveys with a sample of 501 of WSX's household customers.
- 3.33 The survey revealed that 32% of customers found the Draft determinations' proposed bill increases unaffordable, while 79% found the package of investment and service delivery improvements to be acceptable. However, there is significant difference between the proposed change to the average bill in the draft determination (a reduction of -2% before inflation) and the final determination (an increase of +21%). In this context, it is not unreasonable to assume that the volume of customers that would have difficulties affording the 2025-30 bills would be considerably greater, at either a 21% or a 30% bill increase – as the company wants.
- 3.34 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. As they broadly reflect the same outputs as the draft determination, evidence shows customers find the improvements to be acceptable (if not affordable).
- 3.35 CCW is also supportive of the affordability plan that WSX has put in place for 2025-30 and its commitment to end water poverty, so that no customer is 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.

Other issues

Customer Experience (C-MeX) measures

- 3.36 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.
- 3.37 Our annual complaints reports¹³ show a continued increase in customer complaints in the overall 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.

¹² [CCW Draft determination testing research \(November 2024\)](#)

¹³ [Household customer complaints report 2024 - CCW](#)

- 3.38 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.
- 3.39 Ofwat has shown how companies' C-MeX performance has worsened over the current price control period¹⁴. The CMA's redetermination is an opportunity to add a separate performance commitment and ODI on the volume of complaints.

Enquiries

Enquiries about this submission should be addressed to:

Steve Hobbs

Senior Policy Lead, Regulation

Consumer Council for Water

steven.hobbs@ccwater.org.uk

0776 817 5006

¹⁴ [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.