

April 2025

PR24 redeterminations

Response to Anglian Water's statement of case

PR24 redeterminations – response to Anglian Water's statement of case

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4. Navigation assistance

- 4.1 To assist the Competition and Markets Authority (CMA), the table below shows where we have responded to the points raised in Anglian Water Services Limited's (Anglian Water) statement of case.
- 4.2 Many of the points raised by Anglian Water are responded to in the following documents:
- PR24 redeterminations – overview of our response to the statements of case;
 - PR24 redeterminations – expenditure allowances – common issues;
 - PR24 redeterminations – outcomes – common issues; and
 - PR24 redeterminations – risk and return – common issues.
- 4.3 This document starts with a brief description of Anglian Water, from our regulatory perspective, then sets out a summary of our Price Review 2024 (PR24) final determination.
- 4.4 If we consider that a point raised by Anglian Water in its statement of case is company-specific, and our response or CMA's considerations are unlikely to have a wider impact on other companies, or the whole sector, we set out our response in the final section of this document. In order to further assist with navigation of our response to company-specific points we provide a list of the points covered in each sub-section.
- 4.5 Our summary of the PR24 final determination for Anglian Water, and the remainder of this document, and the suite of documents comprising our response to the five statements of case, is generally structured around the building blocks of the price review: expenditure allowances; outcomes; and risk and return.

Table 1.1 Navigation assistance

Point in Anglian Water's statement of case	Statement of case (SoC) reference	For Ofwat's response see
Balance of risk and return	Chapter A, para 6i Chapter H.1, para 689 onwards	Risk and return – section 1 – Balance of risk
What base buys	Chapter A, para 6ii Chapter A, para 35 onwards Chapter E.1	Expenditure allowances – common issues – section 2 – Base expenditure allowances
Asset health	Chapter A, para 6iia Chapter A, para 7ii Chapter A, para 44 onwards Chapter A, section 8.2i and ii Chapter E.2	Expenditure allowances – common issues: Enhancing asset health understanding

Point in Anglian Water's statement of case	Statement of case (SoC) reference	For Ofwat's response see
Relationship between cost and service	Chapter A, para 6iib	Expenditure allowances – common issues – section 2 – Base expenditure allowances
Mains renewals	Chapter A, para 7i Chapter A, para 36 Chapter A, para 38 Chapter A, para 48 Chapter A, section 8.1i Chapter B, para 207 onwards	Expenditure allowances – common issues – section 4 – Water enhancement expenditure allowances
Leakage – base expenditure, enhancement expenditure, PCL and ODI	Chapter A, para 7i Chapter A, para 32 Chapter A, para 39 Chapter A, para 54 onwards Chapter A, section 8.1ii Chapter A, section 8.2i Chapter E.1, para 229 onwards Chapter F, para 397 onwards Chapter G.1, Introduction Chapter G.1, para 418 onwards	Section 2 – Anglian Water – Leakage, Cost adjustment claim appendix Section 4, subsection 'Leakage' in this document Expenditure allowances – common issues – section 4 – Water enhancement expenditure allowances
Boundary box replacement	Chapter A, para 7i Chapter A, para 40 Chapter A, section 8.1iii Chapter E.1, para 260 onwards	Section 3 – Anglian Water – Boundary box replacement, Cost adjustment claim appendix
Frontier shift and RPEs	Chapter A, para 7i Chapter A, para 36 Chapter A, para 41 Chapter A, section 8.1iv Chapter E.1, para 283 onwards Chapter F, para 399 onwards	Expenditure allowances – common issues – section 6 – Frontier shift efficiency and real price effects
Capital maintenance	Chapter A, para 7ii Chapter E.2, para 321 onwards	Expenditure allowances – common issues: Enhancing asset health understanding
Price control deliverables (PCDs)	Chapter A, para 7iii Chapter A, para 69 onwards Chapter A, section 8.4 Chapter F Chapter G.2	Expenditure allowances – common issues – section 7 – Price control deliverables
Outcome delivery incentives	Chapter A, para 7iv Chapter G.1	Outcomes – common issues – section 3 – Calibration of ODI rates and risk protections
Customer engagement	Chapter A, para 9	Outcomes – common issues – section 3 – Calibration of ODI rates and risk protections
Allowed return	Chapter A, para 12 onwards Chapter F, para 404i Chapter H.1, para 694 onwards	Risk and return – common issues – section 4 – Allowed return on equity
Return on equity	Chapter A, para 15 onwards Chapter H.1 Investability and Financeability	Risk and return – common issues – section 4 – Allowed return on equity

Point in Anglian Water's statement of case	Statement of case (SoC) reference	For Ofwat's response see
	Chapter H.2 WACC Chapter A, section 8.5	
Strategic interconnector	Chapter A, para 32	Expenditure allowances – common issues – section 4 – Water enhancement expenditure allowances
Pollution PCL and ODI	Chapter A, para 33 Chapter A, para 54 onwards Chapter A, section 8.2ii Chapter G.1, Introduction Chapter G.1, para 449 onwards	Section 4, subsection 'Total pollution incidents' of this document Outcomes – common issues – section 2 – Approach to setting common PCLs – pollution incidents and section 6 – Changes to total pollution incidents from 2026 onwards
Enhancement and base overlap – flooding mitigation, network reinforcement, sludge growth, smart metering	Chapter A, para 36	Expenditure allowances – common issues – section 3 – Approach to enhancement expenditure
Business rates	Chapter A, para 36 Chapter A, para 43	Expenditure allowances – common issues – section 2 – Base expenditure allowances
Energy costs	Chapter A, para 36 Chapter E1, para 199	Expenditure allowances – common issues – section 2 – Base expenditure allowances
Maintenance – storage points and gravity sewer	Chapter A, para 42 Chapter A, section 8.1v Chapter E.1, para 299 onwards	Section 4 – Anglian Water – Storage points and gravity sewers, Cost adjustment claim annex
Data updates	Chapter A, para 43 Chapter A, section 8.1vi Chapter E.1, para 304 onwards	Expenditure allowances – common issues – section 2 – Base cost econometric models
Risk asymmetry	Chapter A, para 54 Chapter H.1, para 625iii Chapter H.1, section 8.3	Outcomes – common issues – section 5 – Outcomes risk modelling
External sewer flooding	Chapter A, para 64 Chapter A, section 8.2iii Chapter G.1, Introduction Chapter G.1, para 523 onwards	Section 4, subsection 'External sewer flooding' of this document
Water supply interruptions	Chapter A, para 65 Chapter A, section 8.2iv Chapter G.1, Introduction Chapter G.1, para 545 onwards	Section 4, subsection 'Water supply interruptions' of this document Outcomes – common issues – section 2 – Approach to setting common PCLs – water supply interruptions
Outturn adjustment mechanism (OAM)	Chapter A, para 66 Chapter A, section 8.2v Chapter G.1, Introduction Chapter G.1, para 550 onwards	Risk and return – common issues – section 1 – Balance of risk

Point in Anglian Water's statement of case	Statement of case (SoC) reference	For Ofwat's response see
Long-term thinking	Chapter B, Introduction Chapter B, para 82 onwards	Section 3- Timeframe – PR24 redeterminations – overview of our response to the statements of case document
Reactive and unpredictable regulation	Chapter B, Introduction Chapter B, para 98 onwards	Expenditure allowances – common issues – section 2 – Base expenditure allowances
Ofwat's duties	Chapter D Chapter F, para 402 onwards Chapter G.1, para 561 onwards Chapter H.1, para 625	Appendix to PR24 redeterminations – overview of our response to the statements of case document
Enhancement expenditure	Chapter F	Expenditure allowances – common issues – section 3 – Approach to enhancement expenditure
Investability and financeability	Chapter H.1	Risk and return – common issues – section 7 – Financeability
Cost of debt	Chapter H.2, para 769 onwards	Risk and return – common issues – section 3 – Allowed return on cost of debt
Cost of equity	Chapter H.2, para 719 onwards	Risk and return – common issues – section 4 – Allowed return on equity
RCV run-off rates	Chapter H.2, para 790 onwards	Risk and return – common issues – section 6 – Cost recovery
Retail margin adjustment	Chapter H.2, para 793 onwards	Risk and return – common issues – section 5 – Retail margin

5. Introduction

- 5.1 Anglian Water is both a water undertaker and a sewerage undertaker. It supplies water services to 4.8 million customers and wastewater services to 3.1 million customers in the East of England. Anglian Water is a wholly owned subsidiary of Anglian Water Group Limited, a company registered in Jersey. That company is owned by a consortium of investors comprising Canada Pension Plan Investment Board (32.9% - Canada), Industry Funds Management “IFM” Investors (19.8% - Australia), Infinity Investments SA of Luxembourg which is ultimately owned by ADIA, the Abu Dhabi Investment Authority (16.7% - Abu Dhabi), First Sentier Investors Group (15.6% - Australia), and Camulodunum Investments Limited a consortium of GILL Infrastructure and Dalmore capital (15% - UK).¹
- 5.2 Price controls are set for the company as a whole and references to ‘Anglian Water’ in our submissions to the CMA refer therefore to the company as a whole, and all of its relevant operational areas.
- 5.3 In the latest Water company performance report,² we categorised Anglian Water as "lagging behind" for the second year in a row. As with all companies in this category, we require it to produce a service commitment plan.
- 5.4 We currently have an ongoing enforcement case for Anglian Water, relating to whether it is operating its sewage treatment works in line with its environmental obligations.³
- 5.5 We assessed the business plan it submitted in October 2023 against our quality and ambition assessment (QAA).⁴ We considered Anglian Water’s plan to be standard, in that the submitted business plan met our minimum quality expectations in the round and demonstrated a reasonable level of ambition. This resulted in a QAA reward which includes a 5bps financial adjustment and a 50:50 cost sharing rate on base expenditure. Anglian Water have agreed to receive their rewards as a financial adjustment to the RCV. Anglian Water did express its disappointment that the business plan did not achieve a grading of 'outstanding', but did not include this in its PR24 draft determinations representations.

¹ [OF-OA-001] Anglian Water, Anglian Water – statement of case, p. 37, para 130.

² [OF-OU-017] Ofwat, Water Company Performance Report 2023-24, October 2024, slide 8.

³ [OF-OA-055] Ofwat, Investigation into sewage treatment works and sewage networks, March 2022.

⁴ [OF-OA-016] Ofwat, PR24 final determinations: Quality and ambition assessment summary – Ofwat, December 2024, table 7, p. 18.

6. Anglian Water: A summary of our PR24 final determination

- 6.1 We currently have an ongoing enforcement case for Anglian Water, relating to whether it is operating its sewage treatment works in line with its environmental obligations.⁵
- 6.2 We summarise below what was included in our final determination in the three main areas of expenditure allowances, outcomes and risk and return, and provide more information on the key issues that arose between us and Anglian Water during the PR24 process.
- 6.3 The following table sets out the key metrics included in Anglian Water's February 2024 PR24 business plan submission to us, our draft determination, the company's representation on our draft determination and our final determination.
- 6.4 We provide an Appendix to this document that sets out more key data.

Table 3.1: Summary of key metrics

	Revised business plan (Feb 2024)	Draft determination	Company view (August 2024 representations)	Final determination
Totex, 2025-2030 (£million) (post frontier shift/RPEs)	9789	9365	11180	10971
PAYG rate (%)	44.8	43	40.4	37
Allowed return (%)	-	3.72	-	4.03
RCV run-off rate (%)	4.33	4.14	4.13	4.13
Allowed revenue, 2025- 30 (£million)	9,141	8,878	9,534	9,634
Average bill per household customer, 2025-30 (£)	562	544	586	591

Expenditure allowances

- 6.5 In our final determination we allowed Anglian Water a total expenditure (totex) allowance of £11 billion for the period 2025-30. As shown in table 3.2, Anglian Water

⁵ [OF-OA-055] Ofwat, Investigation into sewage treatment works and sewage networks, March 2022.

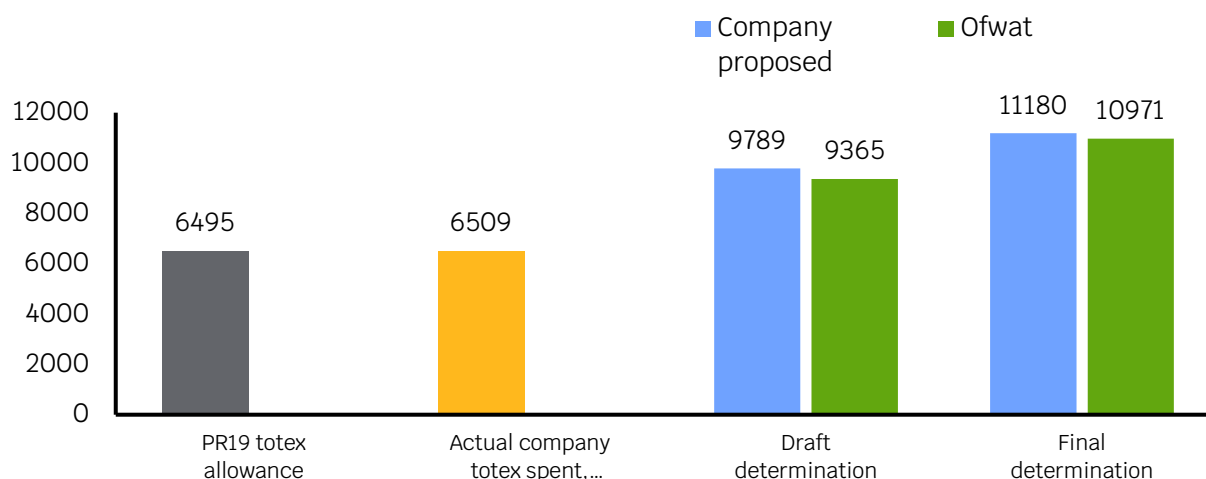
requested a 14% (£1.4 billion) increase in its totex allowance between its February 2024 business plan submission and its representation on the draft determination. We increased its expenditure allowances by £1.6 billion (17%) between the draft and final determination stages. This resulted in the company being left at final determination with a deficit of just 2% or £209 million, compared to its requested allowance.⁶

Table 3.2: Overview of final determination total expenditure allowances and previous stages of PR24 for Anglian Water £m (five-year period, after frontier shift/ RPEs, 2022-23 prices)

Five-year total	BP- Oct 23 (£m)	BP – Feb 24 (£m)	DD (£m)	Rep (£m)	FD (£m)	FD vs Rep (%)	FD vs Rep (£m)
Overall expenditure	9305	9789	9365	11180	10971	-2	-209
Base expenditure	5281	5846	5427	6282	5996	-4	-286
Enhancement expenditure	4024	3943	3938	4898	4975	2	77

6.6 In figure 3.1, we show how PR24 expenditure proposals and allowances compare to PR19 expenditure allowances and the most recent actual expenditure levels.

Figure 3.1: Overview of totex allowances for Anglian Water £m (2022-23 prices)⁷



6.7 Anglian Water submitted an updated business plan in February 2024 with additional costs of £503 million.⁸ This contained changes to its requested costs from those

⁶ [OF-ANH-001] Ofwat, PR24 Key Dataset 2 Costs, Past Delivery and Risk and Return, select Anglian Water, Total expenditure tab, row 23.

⁷ Data provided by companies in their yearly APR submissions, converted to 2022-23 price base. Includes wholesale water, sewage, bioresources & retail. Excludes grants & contributions.

⁸ [OF-ANH-002] Anglian Water, PR24 Update Anglian Water February 2024, Table 6 Summary of totex changes, p. 8.

submitted in October 2023 for the Fens and Lincolnshire reservoirs of £97 million, as well as new costs for Bacton desalination scheme (£336 million) and moving Colchester effluent re-use scheme to in-house delivery (£69 million).⁹ In its representation the company included updated energy costs, changes to rates for local authority wastewater and increases to costs for Environment Agency permits of approximately £436 million.¹⁰ It also included updates to various enhancement scheme costs of £955 million. We subsequently increased its expenditure allowances by £1.6 billion (17%) between the draft and final determination stages.¹¹

- 6.8 The vast majority of the difference in expenditure allowances between the increased company view at representation and Ofwat relates to base expenditure. We consider Anglian Water to be largely efficient in terms of the cost allowance requested for the retail price control. We allowed more than it proposed for its enhancement expenditure,¹² having assessed the evidence provided to be sufficient and convincing to justify all of the upwards adjustments. Even with the large increase in expenditure at representation, Anglian Water was still considered efficient when benchmarked against other companies.
- 6.9 We consider that Anglian Water's final determination totex allowance forms part of an in-the round package that is stretching but achievable and is set at a level that ensures that customers only pay for efficient costs. Our confidence in the achievability of the package is consistent with the evidence to date. Anglian Water is currently one of the most efficient companies in the sector. Although we have classed its performance as 'lagging' for a second year, Anglian Water has met its performance levels for the asset health measures of mains repairs, unplanned outage and sewer collapses.¹³

Base expenditure

- 6.10 We allowed Anglian Water £6.0 billion at final determination for its PR24 base expenditure allowance.¹⁴ This is materially higher than the PR19 allowance, as seen in figure 3.2, and is also £608 million higher than Anglian Water's last five years of reported actual spend.¹⁵ There was a £436 million increase in requested costs by the company between business plan submission in February 2024 and its representation,

⁹ [OF-ANH-002] Anglian Water, PR24 Update [Anglian Water February 2024](#), Table 6 Summary of totex changes, p.8

¹⁰ [OF-CA-021] Ofwat, [PR24-FD-CA02-Base-costs-aggregator-model](#), Tab 'Total-base', subtract cell O97 from S97.

¹¹ [OF-ANH-001] [PR24 final determinations: Key Dataset 2 Costs, Past Delivery and Risk and Return data](#), Anglian Water, Total expenditure tab, row 23.

¹² [OF-ANH-003] Ofwat, PR24 final determinations: Expenditure allowances summary tables, December 2024, tab 'Table 1_PR24 allowances summary, cells E6 vs F6.

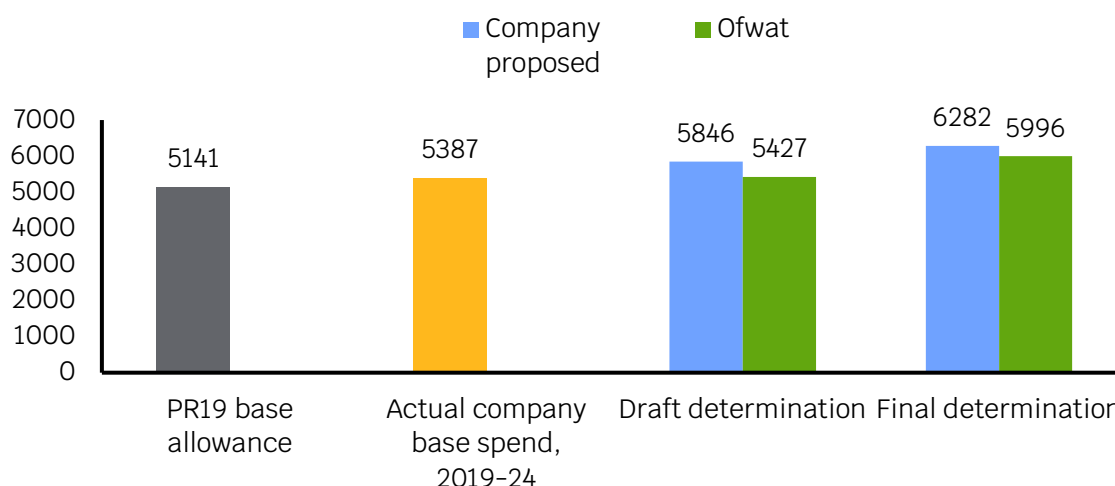
¹³ [OF-OU-017] Ofwat, [Water Company Performance Report 2023-24](#), October 2024, slide 6.

¹⁴ [OF-CA-021] Ofwat, PR24 final determinations: Base costs aggregator model, Tab 'Total-base', cell T97 rounded.

¹⁵ [OF-OA-022] Ofwat, PR24 final determinations: Expenditure allowances, p.382, table 52. Values in figure 3.2 do not tally due to rounding.

which did not include an increase in business rates. Our allowance at final determination was £569 million more than that at draft determination.¹⁶

Figure 3.2: Overview of base allowances for Anglian Water £m (2022–23 prices)



6.11 Anglian Water withdrew four base cost adjustment claims following the draft determination, totalling £905 million in requested allowances.¹⁷ These included claims for energy (£605 million) and phosphorus (£60 million),¹⁸ where sector-wide cost adjustments were applied instead, resulting in Anglian Water receiving £205 million.¹⁹

6.12 At draft determination representations, the company chose to introduce three new base cost adjustment claims, which totaled £414 million, and retain the £68 million leakage claim.²⁰ The three new claims were for:

- mains replacement;
- boundary box replacement; and
- wastewater network reinforcement and reduction of the risk of sewer flooding programmes.

¹⁶ [OF-CA-021] Ofwat, PR24 final determinations: Base costs aggregator model, Tab 'Total-base', cells S97–O97 and cells T97–P97.

¹⁷ [OF-ANH-005] Anglian Water, PR24 Cost Adjustment Claims Anglian Water October 2023, p. 4–5, (average pumping head + water recycling centres + phosphate removal + energy).

¹⁸ [OF-ANH-005] Anglian Water, PR24 Cost Adjustment Claims Anglian Water October 2023, p.4 –5.

¹⁹ [OF-OA-022] Ofwat, PR24 final determinations: Expenditure allowances, December 2024, Anglian Water, p.54, Table 6 Sector wide energy cost adjustment and [OF-ANH-007] Ofwat, PR24 final determinations: Phosphorus removal cost adjustment claim model, December 2024, tab 'Final allowances', cell H8.

²⁰ [OF-ANH-008] Ofwat, PR24 final determinations: Base cost adjustment claim model – Anglian Water, December 2024, tab 'ANH_CAC_Summary', cells F5, F6, F7 and F8.

- 6.13 We partially accepted two of the claims, mains replacement and wastewater network reinforcement and reduction of the risk of sewer flooding programmes. This provided a combined allowance of £187 million against the requested £276 million,²¹ as we challenged Anglian Water's view of what base buys and considered that the base cost models already included an adjustment to reduce the risk of sewer flooding.
- 6.14 We rejected the new cost adjustment claim for boundary box replacement (£138 million), as we considered the company should be able to deliver this through the sector wide adjustment for meter replacement.²² We expect that Anglian Water should exploit synergies to achieve cost efficiencies. We also rejected the resubmitted cost adjustment claim for leakage, as we did not agree that it costs more to maintain low leakage levels. It is also worth noting that we reduced the stretch on the leakage performance commitment levels so that the baseline target for 2024–25 reflected recent performance levels.²³
- 6.15 Anglian Water proposed a number of adjustments to base modelling in its representation, which it indicated would result in an upward adjustment to its allowance. By the time of the final determination in December 2024, we had carried out further work to evaluate the robustness of our modelling results. However, even after these changes Anglian Water's requested base expenditure remained 5% above what we consider to be its efficient costs.²⁴

Enhancement expenditure

- 6.16 We allowed Anglian Water £5 billion for enhancement expenditure at final determination.²⁵ Anglian Water was seen as being generally efficient, compared to other companies on its proposed enhancement allowances requested in its February 2024 business plan. However, following publication of the draft determination in July 2024, the company subsequently determined that it had been too efficient in its cost estimations and materially increased the requested allowances by £955 million in its representation in August 2024. This is shown below in figures 3.3 and 3.4.

²¹ [OF-OA-022] Ofwat, PR24 final determinations: Expenditure allowances, December 2024, Anglian Water, p.39, Table 4: Mains renewals cost adjustment and p.62, Table 9: Water network reinforcement sector wide cost adjustment, p.63, Table 10: Wastewater network reinforcement sector wide adjustment.

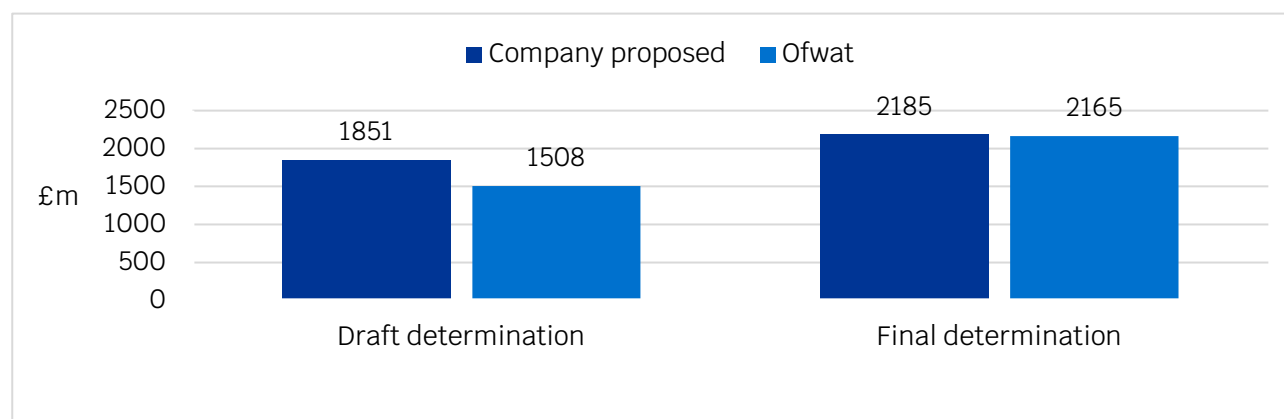
²² [OF-ANH-008] Ofwat, PR24 final determinations: Base cost adjustment claim model – Anglian Water, December 2024, tab 'ANH_CAC3', cell D23.

²³ [OF-OA-017] Ofwat, PR24 final determinations: Delivering outcomes for customers and the environment, December 2024, p.122.

²⁴ [OF-CA-021] Ofwat, PR24 final determinations: Base costs aggregator model, tab 'Total-Base', cell V97.

²⁵ [OF-ANH-003] Ofwat, PR24 final determinations: Expenditure allowances summary tables, December 2024, tab 'Table 1_PR24 allowances summary, cell F6.

Figure 3.3: Water enhancement requests and allowances, draft and final determination (after frontier shift/RPEs)



Water

- 6.17 We significantly increased Anglian Water's water enhancement allowance to £2.2 billion at final determination.²⁶ The increased expenditure we allowed for strategic resource options, which were £64 million²⁷ greater than the company's requested allowance, incorporated increases in requested allowances for the Fenland and Lincolnshire reservoirs, as well as schemes such as Mablethorpe and Bacton desalination. The company also provided additional evidence to support a £586 million increase in the allowance for the supply-demand balance and metering at final determination compared to draft determination.²⁸ We withdrew £41 million allowed for leakage after the leakage performance commitment level was adjusted following revision to the water resource management plan, as we considered improvements to leakage will result from metering activity.²⁹
- 6.18 We provided Anglian Water with an uplift to our interconnector cost benchmark to reflect the additional costs of treatment, crossings and the higher costs of the proposed steel construction of the Grafham transfer. However, we remain concerned around the scale of increased costs and have included five of Anglian Water's ten supply interconnectors in our 'enhanced engagement' oversight mechanism for large

²⁶ [OF-ANH-001] Ofwat, PR24 final determinations: Key Dataset 2 Costs, Past Delivery and Risk and Return, December 2024, select Anglian Water, tab 'Total expenditure', row 23.

²⁷ [OF-OU-081] Ofwat, PR24 final determinations: Enhancement costs aggregator model, December 2024, tab 'Water post adj', cell N314.

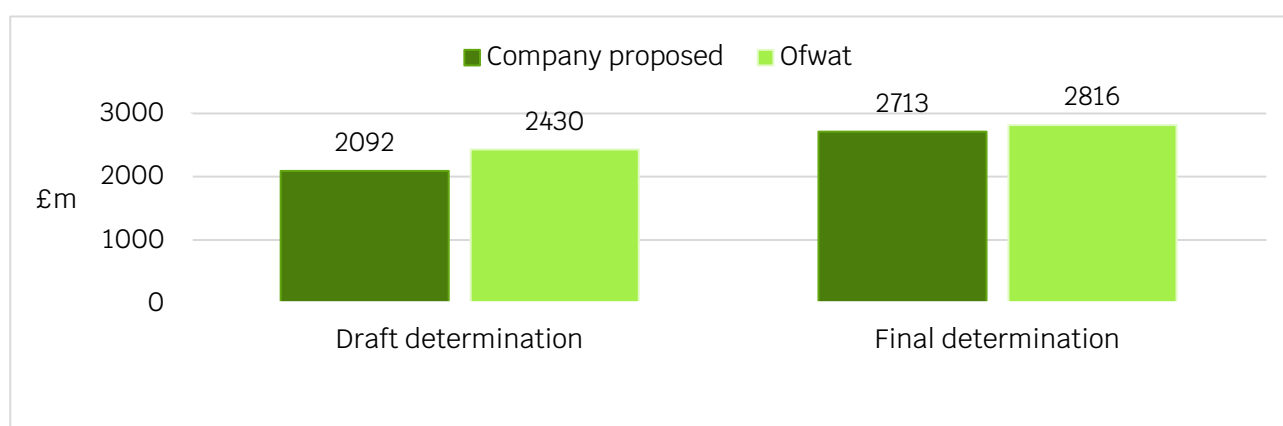
²⁸ [OF-ANH-003] Ofwat, PR24 Final determinations: Expenditure allowances summary tables, December 2024, tab 'Table 48 Water enhancement', cell D4; [OF-ANH-012] Ofwat, PR24 draft determinations: Expenditure allowances summary tables, July 2024, tab 'Table 54 Water enhancement', cell D4.

²⁹ [OF-CA-085] Ofwat, PR24 final determinations: Water leakage enhancement expenditure model, tab 'Cover', cell B73, tab 'Allowance', cell I16.

projects to provide certainty and additional scrutiny to the scope, cost and delivery of these projects.³⁰

6.19 This has been influenced by Anglian Water's overspend in the late delivery of its 2020-25 interconnector programme, where the company asked us to consider providing it with an ex-ante allowance. The overspend was forecast as £340 million. We allowed £204 million in 2022-23 price base (60%) as an adjustment to allowed capex. This was to recognise the expected cost sharing adjustment of this overspend at PR29.³¹

Figure 3.4: Wastewater enhancement requests and allowances, draft and final determination (after frontier shift/RPEs)



Wastewater

6.20 Our enhancement allowance in the final determination covers most of the company's wastewater programme requested expenditure. As figure 3.4 shows, we allowed £2.8 billion, which is £103 million more than Anglian Water requested and £386 million more than at draft determination.

6.21 We assessed Anglian Water as being efficient on costs for wastewater enhancement allowances at draft determination. The company subsequently increased its request by a further £621 million (30%) at representation, without offering additional schemes or improvements for customers.³² Anglian Water said the reason for the increase in costs was the availability of new external cost data and benchmarks. The company used our cost modelling approach to update its costs for the representation. Particular

³⁰ [OF-OA-022] Ofwat, PR24 final determinations: Expenditure allowances, December 2024, p.327, table 40.

³¹ [OF-ANH-10] Ofwat, PR24 Final determinations: Outcome delivery incentives model 2024-25 – Anglian Water, December 2024, tab 'Override_additional info, row 274.

³² [OF-ANH-001] Ofwat, PR24 final determinations: Key Dataset 2 Costs, Past Delivery and Risk and Return, December 2024, select Anglian Water, Total expenditure tab, row 23.

areas that were affected by these amendments to cost modelling were storm overflows (+£80 million), and phosphorus removal (+£44 million).³³ We allowed the company more than it had proposed in these areas as it was still considered more efficient than our cost benchmarks.

- 6.22 We introduced price control deliverables to hold companies to account for the outputs and outcomes that they propose to deliver and to return money to customers if companies do not deliver these in full.

Delivering outcomes for customers and the environment

- 6.23 We consider that Anglian Water's final determination includes targets that are achievable but stretching.
- 6.24 At business plan submission Anglian Water proposed a set of performance commitment levels that we considered were moderately ambitious. We accepted the company's proposed performance commitment levels (PCLs) for both water supply interruptions and per capita consumption. These PCLs remained consistent throughout the process and were in the final determination.
- 6.25 For external sewer flooding, Anglian Water significantly reduced the proposed level of stretch from business plan submission to representation on the draft determination, as shown in Table 3.3. Given recent performance levels (22.46 in performance year 2023-24)³⁴ the PCL proposed by the company was not considered credible, but we did reduce the level of stretch required from the PCL proposed at draft determination, taking into account recent performance and forecasts.

Table 3.3: Changes in proposed performance commitment levels for PR24

Performance commitment	Company view (Feb 2024)	Draft determination	Company view (August 2024)	Final determination
Water supply interruptions (mins)	00:05:00	00:05:00	00:05:00	00:05:00
External sewer flooding (per 10,000 connections)	15.10	13.86	18.04	14.48
Leakage (Ml/day per 1000 km mains)	20.3%	21.8%	11.7%	11.86%
Total pollution incidents (per 10,000 km sewer)	16.38	13.65	23.6	18.6

³³ [OF-ANH-001] Ofwat, PR24 final determinations: Key Dataset 2 Costs, Past Delivery and Risk and Return, December 2024, select Anglian Water, Total expenditure tab, row 23.

³⁴ [OF-SRN-009] Ofwat, PR24 final determinations: Key Dataset 1: Outcomes data, March 2025, tab 'PCL company level summary', cell E12.

- 6.26 Anglian Water has traditionally been an upper quartile performer in the reduction of leakage and was given additional allowances at PR19 to maintain this position.³⁵ Anglian Water considered that draft determination PCLs were too stretching and unachievable because they are derived from baselines aligned with PR19 PCLs. We set the company's PR24 PCLs for both draft and final determinations using the same approach we apply to all companies.³⁶
- 6.27 As Anglian Water signaled in its representation that its water resource management plan was being revised, we were able to make express provision for a change in our final determination document to derive and reflect changes to the company's leakage PCL. We used the same approach as in our PR24 final determinations to reduce the PCL endpoint for the company. However, we retained the same annual average baseline figure as per final determinations as we considered the company proposed value did not demonstrate a reasonable level of ambition from the 2023–24 outturn.
- 6.28 Total pollution incidents is an area of performance where Anglian Water has acknowledged throughout the PR24 price review process that there is significant improvement needed in its performance. The draft determination PCL was set in anticipation that the company had made some progress in reducing pollution levels since 2022–23. However, based on annual performance reporting for 2023–24, it was clear that Anglian Water's performance had deteriorated further. We considered that the company's representation forecast was overly ambitious in the context of that recent performance and accordingly reduced the stretch for the PCL at final determination.
- 6.29 We set the outcome delivery incentive (ODI) rate using the top-down methodology which aims to provide consistent rates across companies. However, given the latest reported position of the company (2023–34),³⁷ we consider this is an area where there is a significant risk of Anglian Water underperforming in the opening years of the 2025–30 period.
- 6.30 Our final determination also protects Anglian Water from the impact of extreme underperformance. We applied underperformance deadbands for all companies for four performance commitments and, for Anglian Water, we applied collars to 14 of 16 of its other financial performance commitments. We also applied caps to 12 performance commitments, to mitigate the impact of extreme outperformance on bills, and outperformance deadbands to two.

³⁵ [OF-CA-136] CMA, Final Report CMA March 2021, p. 736, para (8.205, b,ii).

³⁶ [OF-OA-017] Ofwat, PR24 final determinations: Delivering outcomes for customers and the environment, December 2024, p. 25.

³⁷ [OF-SRN-009] Ofwat, PR24 Key Dataset 1: Outcomes data, March 2025, Tab 'PCL company level summary', cell E14.

Aligning risk and return

Risk and Return

- 6.31 We are satisfied that our final determination for Anglian Water provided a reasonable balance of risk and return.
- 6.32 Anglian Water used our view of the allowed return on capital throughout the PR24 price review process, although it consistently argued for a higher return. It suggested a range of 4.04% to 4.76% in its business plan submission,³⁸ compared to 3.29% from our December 2022 published 'early view' of the allowed return.³⁹ And it suggested a range of 4.06% to 4.56% in its draft determination representation⁴⁰ compared to the 3.72% we allowed at our draft determination, and 4.03% in the final determination.⁴¹
- 6.33 We considered the evidence raised by the company on the overall balance of risk and return in our final determination, having regard to revisions made in the final determination (including to allowed costs, outcome delivery incentives and revenues), which changed the overall balance of risk and return in the company's favour.
- 6.34 We intervened to reduce average RCV run-off rates for Anglian Water at draft determination, as the RCV run-off rates in its business plan were towards the higher end of the sector at 4.33%.⁴² Anglian Water retained the draft determination RCV run-off rates within its representation, with average RCV run-off rates for final determinations at 4.13%.⁴³

Financeability

- 6.35 We assessed that Anglian Water's final determination was financeable on the basis of the notional company, such that it will be able to raise the necessary levels of debt and equity to deliver the required investment. Anglian Water used our notional capital structure to underpin both its business plan and representation.

³⁸ [OF-OU-073] Anglian Water, Anglian Water Our PR24 Business Plan, October 2023, p. 202, Table 30: Proposed allowed return on capital for AMP8.

³⁹ [OF-ANH-009] Ofwat, PR24 final methodology Appendix 11: Allowed return, December 2022, p. 5.

⁴⁰ [OF-OU-075] Anglian Water, Price Review 2024: Anglian Water's Business Plan for AMP8 (2025-2030) Draft Determination Representations, August 2024, p. 122, Section 14, Risk and Return, Summary of our Representations.

⁴¹ [OF-OA-019] Ofwat, PR24 final determinations: Aligning risk and return, p. 24, table 1.

⁴² [OF-OA-058] Ofwat, PR24 draft determinations: Aligning risk and return appendix, July 2024, p. 45, Table 6: Average RCV run-off rates.

⁴³ [OF-OA-020] Ofwat, PR24 final determinations: Aligning risk and return – appendix, December 2024, p. 57, Table 5: Average RCV run-off rates.

6.36 To support financeability and to maintain reasonable gearing levels, our final determination included an equity injection for Anglian Water of £1.52 billion, with £38 million allowance for issuance costs, and allowed for dividends for the notional company of £1.27 billion (4% yield).⁴⁴ The financial ratios assessed in our final determinations support credit ratings consistent with the target credit rating for the notional company of Baa1/BBB+.

Actual company structure

6.37 Anglian Water reported gearing of 68.9% at 31 March 2024. The company's business plan stated a target credit rating of A3 for the actual capital structure, which was one notch above the notional target set in our final determination. The business plan proposed an injection of £819 million equity, with a 3.7% dividend and gearing of 69% in 2030.⁴⁵ In its representation Anglian Water indicated that it would like a consultation on 70% gearing.

6.38 In our most recent monitoring financial resilience report, we categorised Anglian Water as 'standard'.⁴⁶ The company has taken steps to reduce debt levels at the level of the regulated company in recent years. However, Anglian Water's holding companies carry the highest proportion of holding company debt (c. 16% measured by RCV) among the companies we regulate. While Anglian Water's representation to its draft determination proposed an equity injection of £818 million, there is evidence that the level of holding company debt weighs on Anglian Water's credit rating. This is because dividend flows from the regulated company are the primary source of funds to meet interest payments on holding company debt.

6.39 Our final determination included funding to raise equity under the notional structure that is over and above the levels of equity that the company proposed to raise under its actual structure. However, we consider the company may need further investor support, to maintain its long-term financial resilience.

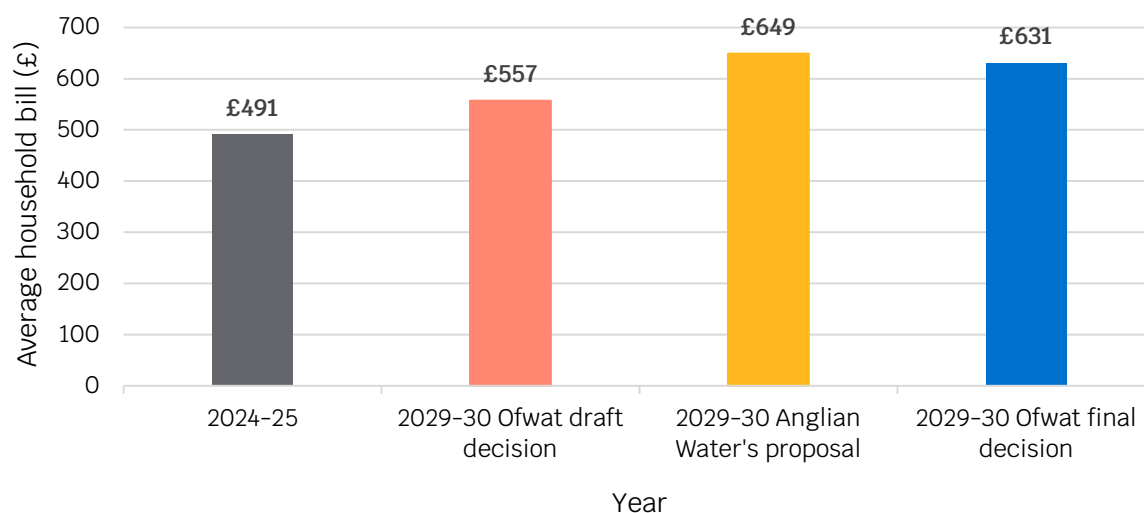
⁴⁴ [OF-OA-020] Ofwat, PR24 final-determinations: Aligning risk and return – appendix, December 2024, p. 70, table 8.

⁴⁵ [OF-OA-020] Ofwat, PR24 final-determinations: Aligning risk and return – appendix, December 2024, p. 85, table 11.

⁴⁶ [OF-OAA-003] Ofwat, Monitoring Financial Resilience report 2023-24, November 2024, p. 7.

Affordability

Figure 3.5: Average household bills for Anglian Water, 2024-25 and 2029-30, before inflation



6.40 As shown in figure 3.5 above, at final determination there was an increase in average household bills by £140 (29%) from 2024-2025 to 2029-30 for Anglian Water customers, before inflation.⁴⁷

6.41 Anglian Water plans to increase social tariff provision from 4% of households in 2020-25 to 7% in 2025-30.⁴⁸ The company has committed to a shareholder contribution of £8 million to hardship funds and other support measures and £6 million on matching payments which are made by customers repaying debts. This is forecast to represent 0.06% of Anglian Water's Return on Regulated Equity (RoRE): this was the fifth lowest percentage of RoRE from a water company at final determination.⁴⁹

⁴⁷ [OF-OA-011] Ofwat, PR24 final determinations: Sector summary, December 2024, p. 21, Our decision is for the revenue companies can collect through bills, not the average bills per customer – the latter is a forecast.

⁴⁸ [OF-OA-048] Ofwat, Summary of water companies' published plans for affordability for 2025-30, December 2024, table 1.2, p. 9.

⁴⁹ [OF-OA-048] Ofwat, Summary of water companies' published plans for affordability for 2025-30, December 2024, table 1.3, p.10.

7. Anglian Water: Our response to its statement of case

Introduction

- 7.1 If we consider that a point raised by Anglian Water in its statement of case is company-specific, and our response or CMA's considerations are unlikely to have a wider impact on other companies, or the whole sector, we set out our response in the following section of this document. In order to further assist with navigation of our response to company-specific points we provide a list of the points covered in each sub-section.
- 7.2 We organise this section around the building blocks of the price review: expenditure allowances; outcomes; and risk and return.
- 7.3 In the Annex to our PR24 redeterminations – overview of our response to the statements of case, we explain how our PR24 final determinations reflect our statutory duties. It also provides our response to any specific comments about our duties, made by companies in statements of case, including those from Anglian Water.⁵⁰
- 7.4 Anglian Water's statement of case does not just seek the inclusion of allowances that have been subject to cost efficiencies or cost adjustment claims that have been rejected at final determination. Instead, it requests an additional £0.4 billion to increase the cost gap to 5%, where it was 2% at final determinations.⁵¹
- 7.5 For performance commitment levels (PCLs), Anglian Water challenges the application of company specific PCLs where it considers that it has been disadvantaged. Rather than being a leading company as Anglian Water portrays itself, the PCLs proposed in response to the draft determination reflected the company's deteriorating performance in the period 2020-25. For metrics like external sewer flooding, Anglian Water's forecast was less than that in its original business plan and given recent performance levels, was not considered credible.
- 7.6 Anglian Water's board assured the representation on the draft determination it produced and proposed a £818.8 million equity injection with the aim of keeping gearing under 70%, whilst adopting a 3.7% dividend yield over the 2025-30 period. We consider that the company should be able to maintain adequate levels of financial resilience and a credit rating well within the investment grade. Although it may need

⁵⁰ [OF-OA-001] Anglian Water, 'Anglian Water-statement of case', March 2025, Chapter D; Chapter F, para 402 onwards; Chapter G.1, para 561 onwards; Chapter H.1, para 625.

⁵¹ [OF-ANH-003] Ofwat, PR24 final determinations: Expenditure allowances summary tables, December 2024, tab 'Table 55 Totex aFS_RPEs', cell V6.

to restrict dividends further, or introduce additional equity, to maintain its long-term financial resilience.

Expenditure allowances

- 7.7 At final determination Anglian Water received 98% of the expenditure that it had requested in its representation on the draft determination. This was despite a £1.4 billion increase in requested expenditure allowance in its representation to the draft determination.
- 7.8 We estimate that the company has requested a further £591 million compared to our final determination.⁵² This takes the increase in expenditure, from its original business plan submission to its statement of case submission, to a total of £1.77 billion, an increase of 18%.
- 7.9 Table 4.1 shows the changes to Anglian Water's proposed base and enhancement expenditure amounts in its February 2024 business plan, its representation on our draft determination, our final determination allowance and its statement of case.

Table 4.1: Cost gap by area (five-year period, after frontier shift/RPEs, 2022-23 prices)

	Company view (February 2024) (£m)	Company view (August 2024) (£m)	Final determination (£m)	Statement of case (£m)	Cost gap FD vs SoC (£m)
Total expenditure	9,789	11,180	10,971 Error! Bookmark not defined.	11,562	-591
Base expenditure	5,846	6,282	5,996	6,524	-528
Enhancement expenditure	3,943	4,898	4,975 Error! Bookmark not defined.	5,038	-63

Setting our base allowances

- 7.10 Our base expenditure allowance in Anglian Water's final determination totalled £6 billion. This is 11% more than the company has spent over the last five years and 17% more than its PR19 allowance.⁵³ The allowance is 4.6% lower than the company

⁵² The CMA may want to request updated business plan data tables from the company.

⁵³ [OF-CA-021] Ofwat, PR24 base costs aggregator model, December 2024, tab Base_vs_PR19, cells I5 and G5.

requested in August 2024 but is 2.6% higher than the company requested in February 2024 (see table above).

- 7.11 In its statement of case, Anglian Water raises the following six issues in relation to our base cost assessment associated with an amendment to the company's allowance:
- 7.12 **Leakage** – Anglian Water asks the CMA to allow its proposed leakage cost adjustment claim (£68 million). The company provides new evidence on the marginal cost of leakage reduction to support its proposal.
- 7.13 **Mains renewal** – Anglian Water disagrees with our approach to determining the mains renewal rate that companies should deliver with base expenditure allowances before any cost adjustments (ie what base buys). It asks the CMA to use the last five years only to calculate what base buys instead of the full historical period and use this to increase the value of its mains renewal cost adjustment.
- 7.14 **Asset health** – Anglian Water proposes a new cost adjustment claim covering additional costs associated with its storage points and gravity sewers assets, valued at £150 million. The company asks the CMA to consider this claim if it decides to reject its other base cost adjustment claims.
- 7.15 **Boundary box replacements** – Anglian Water asks the CMA to allow its proposed cost adjustment claim to increase its rate of boundary box replacements over the 2025–30 period (£138 million). The company provides no additional evidence to support its proposal.
- 7.16 **Frontier shift** – Anglian Water proposes a frontier shift adjustment of 0.8% per year compared to our adjustment of 1.0% per year.
- 7.17 **Water business rates** – Anglian Water asks the CMA to reflect new evidence on rateable values since our final determination.
- 7.18 Anglian Water also raises broader concerns with our enhancing asset health understanding in the water sector workstream and our approach to real price effects (RPEs). It also asks the CMA to include the most recent year of outturn data in its redetermination (2024–25).
- 7.19 Each of these issues has potential cross company impacts and so are discussed in detail in the Expenditure allowances – common issues document, Expenditure allowances – cost adjustment claims and Expenditure allowances – addressing asset health appendices.

7.20 The following table provides additional navigation assistance for the CMA. It sets out each of the key base cost issues raised in Anglian Water's statement of case, a summary of our response and the location of our more detailed response.

Table 4.2: Key base cost issues in statement of case

Base expenditure area	Change to FD allowance (£m)	Ofwat response	Document reference
Leakage cost adjustment claim	68	<p>We rejected the need for adjustment at final determinations. We retain this view based on the new evidence provided.</p> <p>It is not appropriate to consider the relationship between marginal costs of leakage reduction and leakage performance in isolation from total wholesale water base expenditure allowances. Analysis of the leakage cost data we have collected since PR19 does not provide compelling evidence to show that companies with low leakage levels incur higher leakage costs than companies with higher leakage levels.</p> <p>It is also misleading to rely on the conclusions of the PR19 redeterminations to support the claim, since the empirical evidence has improved.</p>	Expenditure allowances – cost adjustment claims Section 3
Mains renewal cost adjustment claim	60	<p>We accepted the need for adjustment at final determination and allowed an additional £144.4 million to deliver a mains renewal rate of 0.54% per year through base allowances.</p> <p>We disagree with the company's approach to determining what base buys. We consider it is most appropriate to use the historical period used to set base expenditure allowances to ensure that customers do not pay twice.</p>	Expenditure allowances – common issues Section 2 – Cost adjustment claims
Asset health – storage points and gravity sewers	150	<p>We do not consider this adjustment is appropriate for several reasons:</p> <p>The company has not determined what base buys, which risks customers paying twice.</p> <p>The company has not proposed any outputs relating to the proposed investment, which means it would be difficult to hold the company to account for improved outcomes.</p> <p>We do not consider a use-it-or-lose-it allowance is appropriate as it does not account for 'what base buys', which risks customers paying twice, and</p>	Expenditure allowances – cost adjustment claims Section 5

Base expenditure area	Change to FD allowance (£m)	Ofwat response	Document reference
		<p>does not guarantee improvements in customer and environmental outcomes.</p> <p>The company proposed to delay this investment into AMP9 in its business plan. It is unclear what has changed.</p> <p>The ongoing work through the enhancing asset health workstream will deliver any required adjustments to deliver this investment.</p>	
Boundary box replacement	138	<p>We rejected the need for adjustment at final determination.</p> <p>The company has not provided material new evidence to support its submission, nor has it sought to address the concerns raised in our assessment.</p> <p>Namely, the scope for efficiencies between its meter replacement and boundary box replacement programmes, and cost efficiency.</p>	Expenditure allowances – cost adjustment claims Section 4
Frontier shift	36	<p>We continue to consider a 1% per year frontier shift adjustment is appropriate.</p> <p>This is consistent with recent CMA and UK regulatory decisions on frontier shift.</p> <p>It is also in the middle of CEPA's recommended range of 0.8% to 1.2%. That considers both pre and post financial crisis productivity growth and other relevant factors such as the most recent OBR productivity growth forecasts; embodied technical shift; and the step-change in investment over the 2025-30 period, which should facilitate a 'learning by doing' productivity effect.</p>	Expenditure allowances – common issues Section 6
Water business rates	76	<p>Companies have received new information since final determinations from the Valuation Office Agency. We have provided an updated model assessment of business rates liabilities based on this new information.</p> <p>We consider that whatever approach the CMA applies, it should apply to all disputing companies.</p>	Expenditure allowances – common issues Section 2 – Unmodelled costs
Total	528		
Other issues			
Base models – use of 2024-25 data		We agree that including the most recent outturn data would help to reflect the most recent cost	Expenditure allowances – common issues

Base expenditure area	Change to FD allowance (£m)	Ofwat response	Document reference
		<p>pressures and efficiencies in base expenditure allowances.</p> <p>But this is a significant task, and it will be important to consider if it is feasible and proportionate to incorporate new data during the CMA redetermination process.</p> <p>We set some key considerations in our response, including the need to consider wider implications. For example, sector wide base cost adjustments and enhancement expenditure assessment that uses historical data.</p>	Section 2
Residential retail		<p>The CMA may want to consider excluding residential retail cost assessment from the scope of its redeterminations.</p> <p>We did not reflect the updated average bill size figures in allowances because they were not stated in representations.</p>	Expenditure allowances – common issues Section 2
Enhancing asset health understanding		<p>The company raises its concerns around the assessment of asset health at final determination, and with our enhancing asset health understanding in the water sector workstream. Namely relating to assessing what base buys, the availability of funding, and alternative regulatory approaches to assessing asset health.</p> <p>We discuss our response to each of its concerns in our supporting asset health appendix.</p>	Expenditure allowances – Addressing asset health at PR24
Material, plant and equipment RPE		<p>We acknowledge that the ONS construction price index (CPI) is not a perfect index as it is based on road and bridge construction.</p> <p>However, no perfect index exists. And CEPA considered this was the best index available. Although the index focuses on highways and bridges, similar cost pressures are likely to affect various infrastructure projects, including those involving water and wastewater companies.</p>	Expenditure allowances – common issues Section 6
Mains renewal PCD		<p>It is appropriate to hold the company to account to renewing the mains set out in its proposal, and to delivering an improvement in asset condition over the 2025-30 period.</p> <p>This is in line with the aims of the mains renewals sector wide adjustment.</p>	Expenditure allowances – common issues Section 2 – Cost adjustment claims

Setting our enhancement allowances

- 7.21 Anglian Water was considered an efficient company in terms of its enhancement costs even after a substantial increase of £817 million in expenditure at representation (as seen below in table 4.3). The company had a positive cost gap at final determination of 2% or £90 million (pre frontier shift). As such, the company does not dispute its overall enhancement allowances in the final determination but seeks specific adjustments.
- 7.22 These adjustments are for the provision of an additional allowance for leakage and an adjustment to frontier shift.⁵⁴ These amendments would result in an extra £63 million for the company, giving an additional enhancement expenditure allowance compared to their draft determination response of £140 million. Both issues are potentially cross cutting and are considered in 'PR24 redeterminations: expenditure allowances – common issues', with a summary of our response provided in Table 4.4 below.
- 7.23 Anglian Water's request for its leakage enhancement alone results in an increase in funding allowances of £21.8 million. This is a consequential change to the requested adjustment for its baseline to reflect outturn performance for 2024–25. Anglian Water's request regarding its performance commitment levels for leakage is further described in the Outcomes subsection of this document / section 4.
- 7.24 Table 4.3 provides details of Anglian Water's proposed and allowed expenditure levels at each stage of the PR24 price review and from the company's statement of case. In addition, Anglian Water also requests an additional £41 million compared to the final determination from proposing to reduce frontier shift efficiency.

Table 4.3: Enhancement cost gaps (before the application of frontier shift and real price effects)

Enhancement expenditure area	Company view (February 2024) (£m)	Company view (August 2024) (£m)	Final determination allowance (£m)	Cost gap at FD (£m)	Statement of case request (£m)	Cost gap to SoC (£m)
Water WINEP	54	56	53	-3	53	
Supply/Demand balance and metering	1,421	1,836	1,881 ⁵⁵	45	1,903	-22
Resilience and security (w)	277	53	51	-2	51	

⁵⁴ [OF-OA-001] Anglian Water, Anglian Water-statement of case, March 2025, p. 112, para (404, i and ii).

⁵⁵ This represents the published final determinations allowance. Post final determinations corrections have determined that this figure should be reduced by £41 million.

Enhancement expenditure area	Company view (February 2024) (£m)	Company view (August 2024) (£m)	Final determination allowance (£m)	Cost gap at FD (£m)	Statement of case request (£m)	Cost gap to SoC (£m)
Water quality improvements	205	240	233 ⁵⁶	-7	233	
Other water enhancement areas	7	0	0	0	0	
Total water enhancement allowance	1,964	2,185	2,218	33	2,240	-22
Storm overflows	662	708	788	80	788	
Nutrients	703	1,015	1,048	33	1,048	
Other WINEP (ww)	339	511	477	-34	477	
Resilience and security (ww)	36	30	30	0	30	
Growth at sewage treatment works	163	265	280 ⁵⁷	15	280	
Industrial emissions directive	38	115	104	-11	104	
Other enhancement areas (ww)	281	174	147	-27	147	
Total wastewater enhancement allowance	2,221	2,817	2,875	58	2,875	
Total enhancement allowance	4,185	5,002	5,092	90	5,115	-22

7.25 The following table provides additional navigation assistance for the CMA. It sets out each of the key enhancement issues raised in Anglian Water's statement of case, a summary of our response and the location of our more detailed response.

Table 4.4: Key enhancement issues in statement of case

⁵⁶ This represents the published final determinations allowance. Post final determinations corrections have determined that this figure should be increased by £2 million.

⁵⁷ This represents the published final determinations allowance. Post final determinations corrections have determined that this figure should be increased by £6 million.

Enhancement expenditure area	Change to FD allowance (£m)	Ofwat response	Document reference
Leakage – Costs of maintaining lower leakage	22	This is an existing issue with new evidence. As a result of our recommendation on performance commitment level, we consider that this is likely to result in an amended PCL and that under such circumstances the company's enhancement allowance should be adjusted accordingly following the approach we applied at PR24.	Expenditure allowances – common issues Section 4 – Water enhancement expenditure allowances
Frontier shift – 0.8% rather than 1.0% per year	41	We continue to consider a 1% per year frontier shift adjustment is appropriate. This is consistent with recent CMA and UK regulatory decisions on frontier shift and is in the middle of CEPA's recommended range of 0.8% to 1.2%. That considers both pre and post financial crisis productivity growth and other relevant factors such as the most recent OBR productivity growth forecasts; embodied technical shift; and the step-change in investment over the 2025–30 period, which should facilitate a 'learning by doing' productivity effect.	Expenditure allowances – common issues Section 6 – Frontier shift efficiency and real price effects
Total	63		

Other key issues in setting expenditure allowances

7.26 Anglian Water raises the following issues in relation to price control deliverables and uncertainty mechanisms applied to enhancement allowances:

- Price control deliverables lack flexibility and add a negative skew to the balance of risks;
- Time incentives should be removed as they constrain the ability of companies to deliver in the most efficient way and increase risk of non-delivery;
- The storm overflow uncertainty mechanism only applies where companies overspend their storm overflow allowances and so the benefits to customers are limited;
- The materiality threshold for the bioresources notified item should be reduced to reflect the risk of cost increases in this area; and
- Cost sharing protections do not go far enough, and they are insufficient to cover the significant risk associated with a larger enhancement programme.

7.27 We summarise our response to these issues in the table below. We set out a more detailed response to these issues in PR24 redeterminations: expenditure allowances – common issues.

Table 4.5: Other key issues in setting expenditure allowances in statement of case

PCD area	Ofwat response	Document reference
Price control deliverables	We have built significant flexibility into PCDs so that companies can deliver programme outputs in the best way possible. We achieve this by tracking generic outputs at the programme level, rather for specific schemes. We do not apply PCD claw-back where companies are slightly late in delivering the funded output by the end of the five-year period but reserve the right to apply claw-back where they are significantly late. Our time incentives encourage companies to deliver schemes on time, based on a fair bet calibrated on outturn PR19 data. Companies are delivering similar schemes across PR19 and PR24. Given that we do not expect to apply claw-back unless a company is not planning to deliver output (in which case the company would have no need of the allowance) we do not consider that PCDs introduce a negative skew on the balance of risks.	Expenditure allowances – common issues – section 7
Time incentives	We use time incentives to encourage timely delivery of outputs. This will reduce pressure on the supply chain and reduce risk of non-delivery across the sector. We are applying these incentives to large areas of work where companies can profile delivery and manage delay risks. Severn Trent's recent announcement that is planning to outperform time incentives suggests that the annual output levels to which we set these incentives are achievable and are already encouraging companies to accelerate delivery.	Expenditure allowances – common issues – section 7
Storm overflow uncertainty mechanism	Companies should not be requesting additional expenditure allowances where they have not fully spent existing allowances. This will reduce public trust and confidence in the sector. We expect companies to go further in addressing storm overflows where they have not fully spent the funding available.	Expenditure allowances – common issues – section 8
Bioresources notified item	The bioresources notified item provides sufficient coverage and risk management for companies when considered alongside other protections (such as cost sharing for bioresources and the funding of increased bioresources storage under the WINEP /NEP -SUIAR drivers)	Expenditure allowances – common issues – section 8
Cost sharing	We implemented a range of enhancements to cost sharing rates in recognition of the potentially lower certainty of enhancement costs and upcoming challenges for the sector to deliver the large PR24 enhancement programme that we consider strike the right balance for dealing with the inherent cost forecasting risk so that it is shared between customers and companies.	Expenditure allowances – common issues – section 8

Delivering outcomes for customers and the environment

7.28 The forecasts made by Anglian Water, in its representation on the draft determination, for a number of performance commitments (PCs) were less ambitious than the levels proposed in the business plan in October 2023. They reflected an overall deterioration in company performance across the 2020–25 period. We consider that the company has an opportunity to outperform in the 2025–30 period if it focuses on key areas of performance and expect it to do so. Where necessary we respond to Anglian Water's

comments on the outcomes framework within our 'Outcomes – common issues' and 'Risk and return – common issues' documents.

Table 4.6: Key issues in outcomes

Point in Anglian Water's statement of case	Statement of case (SoC) reference	For Ofwat's response see
Leakage – base expenditure, enhancement expenditure, PCL and ODI	Chapter A, para 7i Chapter A, para 32 Chapter A, para 39 Chapter A, para 54 onwards Chapter A, section 8.1i Chapter A, section 8.2i Chapter E.1, para 229 onwards Chapter F, para 397 onwards Chapter G.1, Introduction Chapter G.1, para 418 onwards	Section 4, subsection 'Leakage' in this document. Costs doc
Outcome delivery incentives	Chapter A, para 7iv Chapter G.1	Outcomes – common issues – section 3 – Calibration of ODI rates and risk protections
Pollution PCL and ODI	Chapter A, para 33 Chapter A, para 54 onwards Chapter A, section 8.2ii Chapter G.1, Introduction Chapter G.1, para 449 onwards	Section 4, subsection 'Total pollution incidents' of this document Outcomes – common issues – section 2 – Approach to setting common PCLs – pollution incidents and section 6 – Changes to total pollution incidents from 2026 onwards
Risk asymmetry	Chapter A, para 54 Chapter H.1, para 625iii Chapter H.1, section 8.3	Outcomes – common issues – section 5 – Outcomes risk modelling
External sewer flooding	Chapter A, para 64 Chapter A, section 8.2iii Chapter G.1, Introduction Chapter G.1, para 523 onwards	Section 4, subsection 'External sewer flooding' of this document
Water supply interruptions	Chapter A, para 65 Chapter A, section 8.2iv Chapter G.1, Introduction Chapter G.1, para 545 onwards	Section 4, subsection 'Water supply interruptions' of this document Outcomes – common issues – section 2 – Approach to setting common PCLs – water supply interruptions
Customer engagement	Chapter A, para 9	Outcomes – common issues – section 3 – Calibration of ODI rates and risk protections

External sewer flooding

Performance commitment level

Final determination

- 7.29 At PR24, the external sewer flooding performance commitment was set on a company specific basis for the 2025–30 period. The PCLs were set aligned to our ambition for companies to achieve a common level by 2032–33, based on median industry forecast.
- 7.30 In our PR24 methodology, we stated that we expected a common performance level from base expenditure allowance. However, in response to feedback regarding transitions from company-specific to common targets we stated that we would 'review the timescale over which we expect companies to achieve a common PCL as part of our draft determinations for performance commitments that we set on a company specific basis at PR19'.
- 7.31 Our approach was based on companies reaching a common level by 2032–33 which is consistent with our PR24 methodology. For final determinations, we considered this represented 'an appropriate balance for moving towards a common level.' This was based on our approach that:
- recognised PCLs were previously set on a company specific basis; and
 - set an achievable level of stretch in the 2025–30 period.
- 7.32 As stated at final determination, 'we intend to review this convergence ambition level at future price reviews and based on the sector's actual outturn performance.'⁵⁸

Company statement of case

- 7.33 Anglian Water states that our company specific approach is inconsistent with other PCLs, our PR24 methodology and principles of a good regulatory incentive design.⁵⁹
- 7.34 Anglian Water disagrees with our final determination on the following points:
- our approach to setting a company specific baseline while in contrast, we set a 2024–25 baseline that was common across companies for internal sewer flooding;

⁵⁸ [OF-OA-017] Ofwat, PR24 final determinations: Delivering outcomes for customers and the environment, December 2024 (republished 6 February 2025), p.69–7

⁵⁹ [OF-OA-001] Anglian Water, Anglian Water-statement of case, March 2025, p.145–149

- setting a baseline that is too stretching for Anglian Water due to its good historical performance early in the 2020–25 period and the fact that the company is moving away from the PR19 PCL;
- the rationale behind our glidepath endpoint based on the median of companies' 2032–33 forecasts; and
- our approach limits improvement for frontier performers as they may be disincentivised to reach frontier performance as doing so may result in even more stretching PCLs in future price controls.

7.35 Anglian Water proposes that the same approach is applied to setting external sewer flooding PCLs as used for internal sewer flooding. The company considers this approach offers a fair balance of risk across the price control package. Anglian Water proposes a 2024–25 baseline and a 2029–30 PCL that are 13% and 4% less stretching (higher) than our final determination PCLs.

7.36 The company also proposes that the small calculation error identified post final determinations in the external sewer flooding model is corrected.⁶⁰

Table 4.7: Ofwat final determination versus Anglian Water's proposal for external sewer flooding

External sewer flooding per 10,000km	2024–25	2025–26	2026–27	2027–28	2028–29	2029–30
Ofwat final determination (without correction)	16.13	15.84	15.55	15.26	14.97	14.68
Ofwat final determination (with correction)	16.13	15.80	15.47	15.14	14.81	14.48
Anglian Water's proposal	18.29	17.65	17.01	16.37	15.73	15.09

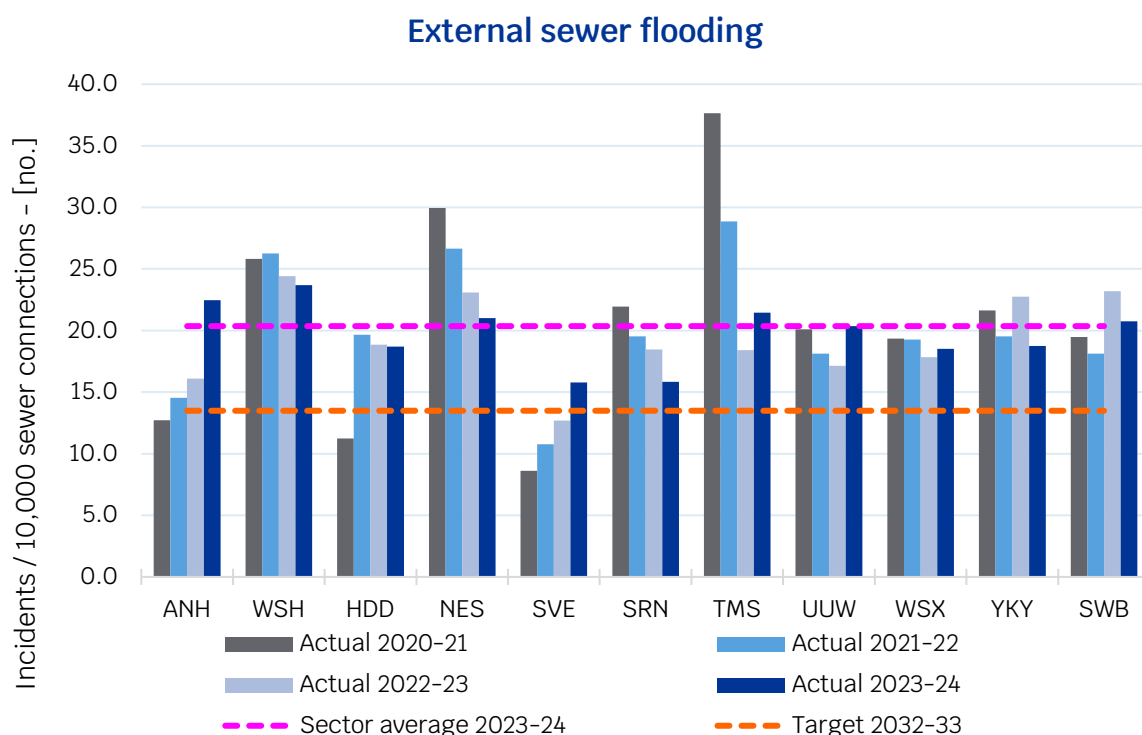
Our response

7.37 Our position on external sewer flooding specificity remains unchanged from final determinations. We consider that the use of company-specific PCLs trending towards

⁶⁰ This small error results in PCLs being set based on converging to 13.49 external sewer flooding incidents per 10,000 sewer connections, from company specific 2024–25 baselines, by 2033–34 rather than 2032–32. For further details please see, [OF-OU-029] Ofwat, PR24 final determinations: Performance commitment model – external sewer flooding, December 2024 (republished February 2025), 'Cover'

a common level in the 2030–35 period remains appropriate. The comparison with internal sewer flooding is valid as we are moving towards setting both performance commitments on a common basis. However, we consider that aiming for convergence in the 2030–35 sets an appropriate stretch across the sector.

- 7.38 We also note that at PR19, external sewer flooding was a bespoke performance commitment. As such, not all companies, including Thames Water and Hafren Dyfrdwy, had a financial incentive to improve external sewer flooding performance over the 2015–20 period. This gives the companies with a bespoke external sewer flooding performance commitment at PR19 an incentive to make an early start meeting the performance during the 2020–25 period. Therefore, imposing a common PCL immediately in this period would be unfair to companies like Hafren Dyfrdwy and Thames Water, which did not have the same incentive in the previous period. In contrast, all companies had internal sewer flooding targets at PR19.
- 7.39 Anglian Water has historically performed well with respect to external sewer flooding, ranking as third best, in normalised terms, out of eleven companies in 2020–21. However, in 2023–24 the company's performance deteriorated, placing it ninth out of eleven. While we agree that Anglian Water's most recent performance has not met its PR19 PCL, we do not consider adopting the proposed common baseline would be in customers' interests as the resulting target represents a deterioration in performance from previously delivered levels of service. Figure 3.6 shown below shows that we challenge companies to achieve a 33.7% improvement, from the 2020–24 sector average of 20.36 to a common level of 13.49 in 2032–33, over the next 8 years. Anglian Water's PR24 2029–30 PCL of 14.68 has been previously achieved in the years 2020–21 and 2021–22, which means we are only pushing Anglian Water to achieve what it has already done so in the past.

Figure 4.1: External sewer flooding over the 2020-24 period⁶¹

7.40 For final determinations, we set a baseline of 16.13 external sewer flooding incidents per 10,000 sewer connections. This level is 11% less stretching than the 14.48 external sewer flooding incidents per 10,000 sewer connections set as the company's PR19 2024-25 PCL. Additionally, in the initial PR24 business plan submissions Anglian Water forecast to deliver a performance level of 16.09 by 2024-25.⁶²

7.41 Our PCL for 2025-30 is based on company forecast trends. We continue to consider that the 2032-33 convergence point of 13.49 sets a reasonable challenge for lower-performing companies to make necessary improvements. We have required companies to achieve reductions between 7.7% and 27.9% across the 2025-30 period. This is within levels delivered historically of '7% to 29% from 2017-18 to 2022-23'.⁶³

7.42 Focusing on Anglian Water, the company is one of only two companies for which we have set a PR24 PCLs for 2025-30 below the company's median historical performance.

⁶¹ [OF-OU-029] Ofwat, PR24 final determinations: Performance commitment model – external sewer flooding, December 2024 (republished February 2025).

⁶² [OF-OU-063] Ofwat, PR24 draft determinations: Performance commitment model – external sewer flooding, July 2024, 'Input_Final_data', cell K11.

⁶³ [OF-OU-011] Ofwat, PR24 draft determinations: Delivering outcomes for customers and the environment, July 2024, p. 111.

⁶⁴ For final determinations our PR24 2029–30 PCL is a level marginally less stretching than the company's PR19 2024–25 PCL.⁶⁵

7.43 Concerning the small calculation error in the external sewer flooding PCL model, when we assessed this, we did not consider it necessary to make a change to the model given the materiality of the change. We recognise, as noted in our final determination document, that we will review this convergence ambition level at future price reviews, which will take into account this error as well as the sector's actual outturn performance.⁶⁶

7.44 In summary, we consider these PCLs to be achievable and we are not stretching Anglian Water to outperform levels it has delivered in the past. We do not consider that setting less stretching PR24 PCLs would be in the interests of customers or the environment. We also do not propose that the CMA adopts a common PCL for external sewer flooding.

Leakage

Performance commitment level

Final determinations

7.45 For final determinations, we set Anglian Water's PCLs consistent with the approach applied across the sector. We derived a 2024–25 baseline position by putting greater emphasis on recent performance and set a PR24 2029–30 PCL based on companies' published 25-year Water Resource Management Plan (WRMP) or our current best view of companies' proposals'.⁶⁷

7.46 We summarised our approach to deriving a 2024–25 baseline as follows. 'For our final determinations, the PR19 2024–25 PCL remains an important source of information that we assess the companies' forecasts and wider performance against. But we no

⁶⁴ Median performance for the 2017–18 to 2023–24 period is 13.34 external sewer flooding incidents per 10,000 sewer connections. Anglian Water's PR24 PCL for external sewer flooding is 15.84 external sewer flooding incidents per 10,000 sewer connections in 2025–26 and 14.68 external sewer flooding incidents per 10,000 sewer connections in 2029–30.

⁶⁵ PR19 2024–25 PCL is equivalent to 14.48 external sewer flooding incidents per 10,000 sewer connections. [OF-OU-063] Ofwat, PR24 draft determinations: Performance commitment model – external sewer flooding, July 2024, 'PR19_PCLs', cell Q7

⁶⁶ This small error results in PCLs being set based on converging to 13.49 external sewer flooding incidents per 10,000 sewer connections, from company specific 2024–25 baselines, by 2033–34 rather than 2032–32. For further details please see, [OF-OU-029] Ofwat, PR24 final determinations: Performance commitment model – external sewer flooding, December 2024 (republished February 2025), 'Cover'

⁶⁷ [OF-OA-17] Ofwat, PR24 final determinations: Delivering outcomes for customers and the environment, December 2024 (republished February 2025), pp. 121–123

longer adopt the PR19 2024–25 PCL for our baseline by default. Instead, we intervene where necessary to adjust companies' baseline using our assessment of whether their forecasts are overly or insufficiently stretching.⁶⁸

- 7.47 In its final leakage data submission for PR24 (REF A in table 4.9 below), Anglian Water did not forecast to meet its PR19 2024–25 PCL. As such, we reviewed the proposed improvement between the company's 2023–24 outturn performance level and forecast 2024–25 level.⁶⁹ The company proposed a 1.5 Ml/d (0.8%) reduction in annual average leakage levels from 182.1 Ml/d in 2023–24 to 180.6 Ml/d in 2024–25.
- 7.48 We considered this proposal to be 'insufficiently ambitious' for a company that was forecasting not to meet its PR19 PCL. Under such a scenario, we expected a company to do all it could to try and deliver its PR19 PCLs. We compared the company's proposal to the historical annual leakage reductions level it had delivered in the 2017–2024 period. For four years of the six years in this period, the company delivered an annual reduction in leakage in the consistent range of 8.4 to 9.0 Ml/d. We therefore considered it was appropriate to stretch Anglian Water to reduce its leakage levels by 8.75 Ml/d (the median of this range) to deliver a level of 173.3 Ml/d in 2024–25.^{70,71}
- 7.49 For Anglian Water, we set the PR24 2029–30 PCL based upon the annual leakage levels in the company's published WRMP (REF B in table 4.9 below). However, we noted that the company's leakage profiles in its representations did not align with the figures in its published final WRMP. Anglian Water stated that it planned to adjust its final WRMP to reflect how it intended to deliver its demand reduction across leakage and per capita consumption. The company also stated it was in discussions to gain approval for this change from the Environment Agency and Defra. As this approval had not been confirmed at the time of final determinations, we stated, 'following confirmation of acceptance of the change from the Environment Agency and Defra, we will engage with the company and consider any request to update the PR24 PCLs post publication of final determination.'⁷²
- 7.50 The annual average leakage values we used to calculate the PR24 PCLs for Anglian Water at final determinations are included in REF C in table 4.9 below. These figures

⁶⁸ [OF-OA-017] Ofwat, 'PR24 final determinations: Delivering outcomes for customers and the environment, December 2024 (republished February 2025)', p. 121

⁶⁹ In assessing leakage levels and deriving PCLs we conduct analysis in terms of annual average leakage levels before converting to the PCL which is expressed in terms of percentage reduction in three-year average leakage from the 2019–20 baseline.

⁷⁰ [OF-OU-067] Ofwat, PR24 final determinations: Anglian Water – Outcomes appendix, December 2024, p. 3–4

⁷¹ This also included accounting for a minor leakage reduction benefit from the company's accelerated programme. For further details see [OF-OU-019] Ofwat, PR24 final determinations: Performance commitment model – leakage, December 2024 (republished March 2025), 'Analysis_Additional', cell R163

⁷² [OF-OU-067] Ofwat, PR24 final determinations: Anglian Water – Outcomes appendix, December 2024, p. 3

were derived from assessment of the company's submitted forecast and its published WRMP (REF A and REF B respectively in table 4.9).⁷³

Post final determination changes

- 7.51 In February 2025, Anglian Water wrote to us to confirm the proposed change had been accepted by the Environment Agency and Defra. We provide the annual average values (MI/d) in REF D in table 4.9 below.
- 7.52 We revised the PR24 PCLs based on applying our final determinations approach to these revised WRMP numbers in REF D or by considering what we would do had this WRMP been updated late 2024 instead of early 2025.
- 7.53 As such, post final determinations, we adjusted the 2029–30 annual average figure to reflect the current best view of Anglian Waters' WRMP. This follows our final determination approach. This changed the 2029–30 annual average figure from 151.5 MI/d to 168.2 MI/d. This is reflected in REF E in table 4.9 below. This, in turn, adjusts the PCL value as it is measured in terms of percentage reduction in three-year average leakage from the 2019–20 baseline.
- 7.54 However, maintaining the same approach as per final determinations, we did not adjust the 2024–25 baseline to reflect the annual average leakage figures provided by the company in REF D in table 4.9. This is because the 2024–25 information was still a forecast rather than an assured outturn performance level. As per final determination, we considered the level put forward by Anglian Water an 'insufficiently ambitious' reduction target from the 2023–24 outturn.
- 7.55 Given this, we updated the company's PR24 leakage PCLs based on the annual average leakage profile shown in REF E in table 4.9.⁷⁴

Company statement of case

- 7.56 Anglian Water asks in its statement of case that its PR24 leakage PCL be revised to account for a baseline that is more aligned with likely outturn rather than improvements it has delivered in the past. Anglian Water states that in the context of the PR19 claw-back mechanism this will provide a leakage reduction over the 2024–25 to 2029–30 period that should be used to calculate a corresponding cost allowance.⁷⁵

⁷³ Analysis is included in version 1 of the leakage PCL model [OF-OU-097] Ofwat, PR24 final determinations: Performance commitment model – leakage, December 2024.

⁷⁴ Analysis is included in version 3 of the leakage PCL model [OF-OU-019] Ofwat, PR24 final determinations: Performance commitment model – leakage, December 2024 (republished March 2025).

⁷⁵ [OF-OA-001] Anglian Water, PR24 CMA Redetermination Statement of Case, p. 126, Table 10.

Table 4.8 Revised annual average leakage profile proposed in Anglian Water's statement of case

	2024-25	2025-26	2026-27	2027-28	2028-29	2029-30
Annual average leakage (MI/d)	180.5	177.4	177.5	173.8	171.8	168.2

Our response

- 7.57 If the CMA intervenes to adjust Anglian Water's PR24 leakage PCLs, we recommend that it considers the PR19 claw-back mechanism. This mechanism was included at PR19 to return enhancement cost allowances to customers through the PR19 ODIs if the company did not meet its PR19 PCLs. The impact of this mechanism can be considered to align cost allowances for the 2020-25 period to the leakage reduction delivered in this period.⁷⁶
- 7.58 We consider we have set the company's PR24 leakage PCLs using an appropriately stretching 2024-25 baseline position in the absence of an assured outturn leakage performance level for 2024-25. During its redetermination, the CMA has the opportunity to use actual 2024-25 data, which should become available on 15 July 2025. This data has not previously been available to Ofwat or the company. In the context of the PR19 claw-back mechanism, if the CMA intervenes, we recommend the CMA adopts the approach of using the actual 2024-25 outturn position to update the baseline and profile of the PR24 PCL for leakage. These are the figures that would have been used in the WRMP had it been produced now. Additionally, we recommend that the CMA adopts the use of annual average figures rounded to one decimal place consistent with the calculations in our PR24 PCL leakage model.⁷⁷
- 7.59 The CMA should also consider if any amendments are necessary to South East Water's leakage PCL in the 2020-25 period given South East Water also had the PR19 claw-back mechanism. This would have the benefit of treating disputing companies consistently. This section of our response focuses solely on PCL setting and we discuss the issues Anglian Water has raised relating to leakage costs in Section 4 of the PR24 redeterminations – expenditure allowances – common issues.

⁷⁶ For further details see [OF-OU-098] Competition & Markets Authority, Anglian Water Services Limited, Bristol Water plc, Northumbrian Water Limited and Yorkshire Water Services Limited price determinations -Final report, March 2021, p.732-734 and [OF-OU-099] Ofwat, Consolidated PR19 final determinations: Anglian Water – Outcomes performance commitment appendix, February 2023, p.9-12.

⁷⁷ [OF-OU-019] Ofwat, PR24 final determinations: Performance commitment model – leakage, December 2024 (republished March 2025).

Table 4.9: Annual average leakage profiles relevant to this section

REF	Annual average (ml/d)	2024-25	2025-26	2026-27	2027-28	2028-29	2029-30
A	Final leakage data submission provided by Anglian Water prior to final determinations	180.6	177.6	175.6	173.9	171.9	168.2
B	Anglian Water published WMRP values at December 2025	164.2	161.1	159.1	157.3	155.3	151.5
C	Values that formed basis of PR24 PCLs at final determinations	173.3	168.0	162.7	157.3	155.3	151.5
D	Values provided by Anglian Water post final determination following acceptance by EA and Defra	180.5	177.4	175.5	173.8	171.8	168.2
E	Values that formed basis of revised PR24 PCLs post update in REF D	173.3	173.3	173.3	173.3	171.8	168.2
F	Values proposed by Anglian Water in statement of case (rounded to one decimal place)	180.5	177.4	177.5	173.8	171.8	168.2

Total pollution incidents

Performance commitment level

Final determinations

7.60 At PR24, we set the total pollution incidents PCL at a common level for all companies, except for Hafren Dyfrdwy.⁷⁸ The 2024–25 baseline is set at a level of 26.61 incidents per 10,000km of sewer length and is calculated from the median of the average performance from 2020–24 for each company. This was an adjustment we made from our draft determinations and puts greater emphasis on recent performance levels.

7.61 We applied a 30% improvement to the baseline to derive the 2029–30 PCL of 18.63 incidents. This level of performance improvement aligns with the ambition set out by the Environment Agency in the Water Industry Strategic Environmental Requirements (WISER).⁷⁹

Company statement of case

7.62 Anglian Water considers that our common PR24 PCL is unachievable and identifies two key aspects to support its case:

- the way in which performance is normalised (by sewer length only, rather than normalised based on the incidents caused by different types of asset); and
- insufficient funding within base allowances (particularly in relation to climate change impacts).⁸⁰

7.63 Reflecting on the above, Anglian Water proposes adjusted PCLs (Table 4.13) for the 2025–30 period that it considers more accurately reflect its performance in relation to its asset base. The company derives the adjusted PCLs through use of an alternative approach to normalise performance and converted back to a metric expressed in terms of incidents per 10,000km sewer length.⁸¹

Table 4.13: Anglian Water proposed remedy for total pollution incidents PCL

No. of Incidents per 10,000 km of sewer length	2024–25	2025–26	2026–27	2027–28	2028–29	2029–30
Ofwat's Final Determination	26.61	25.02	23.42	21.82	20.23	18.63
Anglian Water proposed alternative normalisation in its Statement of Case March 2025	–	31.06	29.08	27.10	25.11	23.13

⁷⁸ We set company-specific PCLs for Hafren Dyfrdwy because the company's small size relative to other water and sewerage companies. For further details see, [OF-OU-020] Ofwat, PR24 final determinations: Hafren Dyfrdwy – Outcomes appendix, December 2024, p. 3–8.

⁷⁹ [OF-OA-017] Ofwat, PR24 final determinations: Delivering outcomes for customers and the environment, December 2024 (republished February 2025), p. 184.

⁸⁰ Ofwat, PR24 redeterminations – expenditure allowances – common issues, April 2025.

⁸¹ [OF-OA-001] Anglian Water, PR24 CMA Redetermination Statement of Case, p. 135–136.

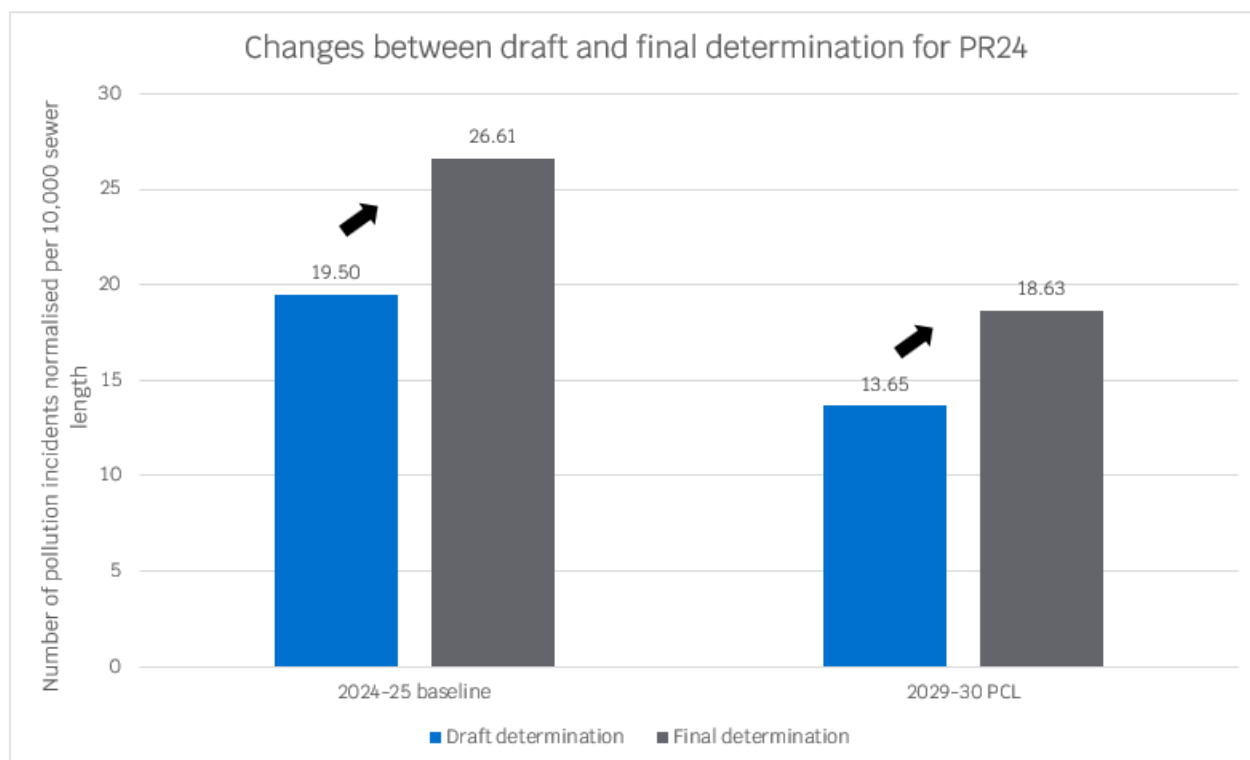
Our response

- 7.64 We note that the Environment Agency (EA) and Natural Resources Wales (NRW) are considering normalisation as part of their consultation on EPA changes, which we outline in Section 6 of the 'PR24 redeterminations – outcomes – common issues' document.⁸² At final determinations, we said that we would consider the impacts of any change in the EPA following the stakeholders' consultation of the Environment Agency and Natural Resources Wales and manage the change according to our change control process.
- 7.65 Generally, companies identified blockages and asset failure as primary causes of pollution incidents. Anglian Water stated that the number of sewage pumping stations and wastewater treatment works per 10,000km sewer owned by the company is higher than many other water companies, leading to more pollution incidents occurring in the network when compared to other water companies.
- 7.66 The performance of sewage pumping stations and wastewater treatment works can be better monitored by deploying sensors at the right locations and prevent total pollution incidents from these assets. We expect that sewage pumping stations and wastewater treatment works to be operated resiliently by having appropriate standby systems to reduce the risk of pollution incidents.
- 7.67 Anglian Water previously provided a forecast of performance with the associated costs in its October 2023 submission and a proposed 2029–30 PCL of 16.38 incidents per 10,000km.⁸³ This proposed target in its business plan demonstrates that the company previously considered it could achieve the final determination PCL.
- 7.68 We have already significantly intervened at final determinations to reduce the stretch for this performance commitment at final determinations compared to draft determinations in response to company feedback and having considered the 2020–24 performance data. This change resulted in a 36% less stretch in the 2024–25 baseline and 2029–30 values (Figure 4.2).

⁸² Ofwat, PR24 redeterminations – outcomes – common issues, April 2025, pp. 45–49 (s.6).

⁸³ [OF-OU-073] Anglian Water, Our PR24 Business Plan, October 2023, p.129.

Figure 4.2: Change of Total Pollution Incidents PCL from draft determination to final determination



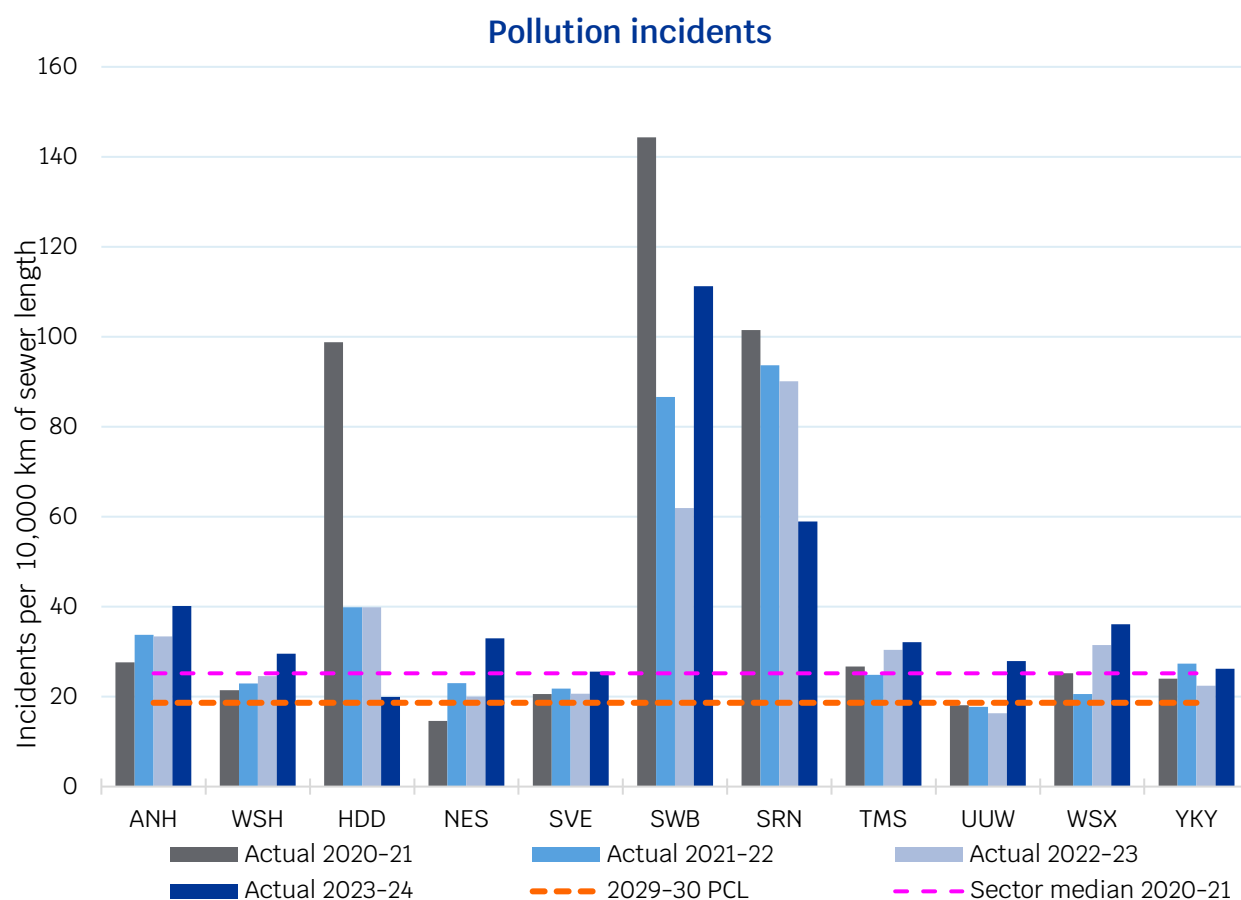
7.69 Given these changes, we consider our common PCL is stretching yet achievable. This is supported by consideration of company forecasts with four companies proposing to meet the 2025-26 PCL and six companies proposing to meet the 2029-30 PCL.⁸⁴ Companies have been more ambitious nearer the end of the 2025-30 period and as such we have proposed a 2029-30 PCL of 18.63 incidents per 10,000km of sewer, which sits between the sector lower quartile and median forecast performance levels by companies at final determination.⁸⁵

7.70 Moreover, reflecting on the sector performance for total pollution incidents, most companies only need to replicate their best 2020-24 performance to meet the 2029-30 PCL (Figure 4.3).⁸⁶

⁸⁴ Analysis excluding Hafren Dyfrdwy.

⁸⁵ Company 2029-30 forecast median is 15.18 incidents, and lower quartile is 22.24 incidents, excluding Hafren Dyfrdwy.

⁸⁶ [OF-OU-017] Ofwat, Data for the Water Company Performance Report 2023-24 – Ofwat, sheet '10'. 6 out of 10 companies performed better than the sector median in 2020-21 and 2021-22. 5 out of 10 companies performed better than the sector median in 2022-23.

Figure 4.3: Total pollution incidents performance over the 2020-24 period

7.71 For final determinations, we have provided sufficient allowances through base expenditure to deliver improvements in performance. This section of our response focuses solely on PCL setting and we discuss the issues Anglian Water has raised relating to the document 'PR24 redeterminations – expenditure allowances – common issues'.

7.72 Addressing pollution incidents are increasingly important for Anglian Water's customers.⁸⁷ The independent challenge group notes that the company's performance has been "disappointing, not least on pollution incidents, over the last couple years".⁸⁸ The document continues to highlight that "managing pollution incidents had not met the standard expected by the ICG" and the company had been relatively slow in

⁸⁷ [OF-OU-093] Anglian Water, Outcomes – PR24 data tables commentary, October 2023, p. 123.

⁸⁸ [OF-OU-094] Anglian Water, ANH88 Independent challenge group report, October 2023, p. 5.

coming forward with more details about their Pollution Incident Reduction Plan (PIRP). This highlights the need to improve in this area.

- 7.73 We do not consider it would be in the interests of customers and the environment to provide a company specific PCL. This is an area where the sector needs to improve on its performance, to deliver for customers and the environment. In the most recent Environmental Performance Report (EPA) published by the EA, Anglian Water was rated 2 stars (out of 4).⁸⁹ With poor historical performance, the changes we have made between draft and final determinations and the importance of pollution incidents to customers, we consider our PCL to incentivise the company to improve in this area. As proposed in their PR24 business plan submission, we consider this PCL is achievable for Anglian Water based on its company forecast.

ODI Rate

Final Determination

- 7.74 The ODI rate for pollution incidents is calculated using the top-down approach based on equity return at risk. For final determinations, the use of additional performance data from 2023-24 led to a 40% reduction in the strength of the median ODI rate from draft determinations. The median ODI rate is still 103% stronger than at PR19.⁹⁰
- 7.75 At PR24, total pollution incidents was allocated to the "high" starting RoRE risk to align with the UK government's strategic priorities for Ofwat.⁹¹ The 0.6% RoRE starting allocation is then spread across the calculated performance range to give a final unit rate, which in the case of Anglian Water is £0.248m per pollution incident.⁹²

Company statement of case

- 7.76 Anglian Water disputes the ODI rate for total pollution incidents stating that it is poorly calibrated and disproportionately strong, which leads to a significant risk of excessive underperformance payments.⁹³
- 7.77 To demonstrate this, the company highlights that the ODI unit rate for one pollution incident is significantly higher than one internal sewer flooding incident (£0.061m

⁸⁹ [OF-OU-056] Environment Agency, Environment Agency Environmental Performance Assessment Result 2023 for water and sewerage companies, 2023, cell I3.

⁹⁰ [OF-OA-017] Ofwat, PR24 Final determinations: Delivering outcomes for customers and the environment, December 2024 (republished February 2025), pp. 185-186.

⁹¹ [OF-OU-011] Ofwat, PR24 draft determinations: Delivering outcomes for customers and the environment, July 2024, section 4, p. 24.

⁹² [OF-OU-074] Ofwat, PR24 Final determinations: PR24-FD-OC03-ODI-rates – ODI Rates, December 2024.

⁹³ [OF-OA-001] Anglian Water, PR24 CMA Redetermination – Statement of Case, March 2025, p. 140.

compared to £0.248m).⁹⁴ The company says this does not align with its customers' preferences, which place a higher importance on internal sewer flooding than pollution incidents.⁹⁵

7.78 Anglian Water proposes that the CMA set the ODI rate aligned to their customer valuation rate of £0.605m per incident per 10,000km sewer length.⁹⁶ This equates to an incident rate of £0.079m per pollution incident, which is less than a third the amount in our final determinations.

7.79 Anglian Water also suggest the ODI rate needs to be reconsidered in response to changes to the total pollution incidents definition being consulted on by the Environment Agency.⁹⁷ Our response to this is set out in section 6 of our document responding to common issues raised by the disputing company on outcomes.⁹⁸

Our response

7.80 We consider there is not compelling new evidence to change the ODI rate for total pollution incidents. To set this ODI rate to align to an individual company's customer valuation rates would deviate from our top-down methodology and would be counter to our PR24 aim that we should set a consistent valuation per incident across companies.⁹⁹

7.81 At draft determinations, we tested for any regional variances in our approach of using customer preferences to rank the relative importance of each performance commitment. We tested our approach by applying the research results on a company-by-company basis. In practice, we found that almost all of the company-by-company based customer valuations aligned with the national valuations, including Anglian Water's customers valuations of pollution incidents.^{100 101} Therefore, it would not be appropriate to adjust Anglian Water's ODI rate to reflect its customer valuation research as its customers' valuation of pollution incidents is aligned with the industry level research. Additionally, in its draft determination representation, Anglian Water did not request its ODI rate for total pollution incidents to be aligned to the customer valuation approach. The company instead proposed a rate of £1.587m calculated using an adjusted version of the top-down methodology.¹⁰² This rate is more closely aligned

⁹⁴ [OF-OU-074] Ofwat, PR24 Final determinations: PR24-FD-OC03-ODI-rates, December 2024.

⁹⁵ [OF-OA-001] Anglian Water, PR24 CMA Redetermination – Statement of Case, March 2025, pp. 141-143.

⁹⁶ [OF-OA-001] Anglian Water, PR24 CMA Redetermination – Statement of Case, March 2025, p. 143.

⁹⁷ [OF-OA-001] Anglian Water, PR24 CMA Redetermination – Statement of Case, March 2025, p. 144.

⁹⁸ Ofwat, PR24 redeterminations – outcomes – common issues, April 2025, pp. 45-49 (s.6).

⁹⁹ [OF-OU-012] Ofwat, PR24 final determinations: Using collaborative customer research to set outcome delivery incentive rates, August 2023, p. 39.

¹⁰⁰ [OF-OU-011] Ofwat, PR24 draft determinations: Delivering outcomes for customers and the environment, July 2024, section 4, pp. 21-22.

¹⁰¹ [OF-OU-095] Ofwat, PR24 Final determinations models: Customer preferences regional analysis, April 2025.

¹⁰² [OF-OU-075] Anglian Water, Price Review 2024: Anglian Water's Business Plan for AMP8 (2025-30) – Draft Determination Representations, August 2024, chapter 12, p. 96.

to the company's final determination rate of £1.89m than its proposed customer valuation rate of £0.605m.¹⁰³

- 7.82 It is inappropriate to directly compare incentive strength by comparing the individual incident unit rate across different performance commitments. This rate includes the impact of differences in the frequency of incidents and in historical performance ranges across performance commitments. Both are used in the calculation of the ODI rate.
- 7.83 Anglian Water experienced 307 pollution incidents in 2023–24 compared to 662 internal sewer flooding incidents over the same period.¹⁰⁴ As a result, applying a similar or equal unit ODI rate across the two measures would lead to excessive risk being applied to internal sewer flooding. Additionally, the historical performance range used to set the rate for internal sewer flooding (90%) is significantly greater than total pollution incidents (66%), which further increases the difference between the two unit rates.^{105 106}
- 7.84 We do not consider it is in the interests of customers or the environment to reduce the ODI rate for total pollution incidents. This performance commitment acts as an important measure to ensure companies are effectively managing their wastewater networks to minimise environmental harm. While category 3 incidents are classified as 'low or no environmental harm', effective network management is essential to prevent category 1–2 incidents, of which Anglian Water experienced 11 in 2023–24.¹⁰⁷

Water supply interruptions

Performance commitment level

Final determination

- 7.85 At PR24, we set PCLs at a common level of 5 minutes across all years of the 2025–30 period for all companies. We expect companies to deliver this performance from their

¹⁰³ [OF-OU-074] Ofwat, PR24 Final determinations: PR24-FD-OC03-ODI-rates – ODI Rates, December 2024.

¹⁰⁴ [OF-OU-076] Ofwat, PR24 final determination models: Historical performance trends for PR24 V4.0, March 2025.

¹⁰⁵ [OF-OU-079] Ofwat, PR24 final determination models: PR24 ODI Rates – Performance Range Model 1, December 2024.

¹⁰⁶ The historical P10/P90 performance range is used to calculate the likely wide performance range for each individual PCL. A wider performance range leads to a lower incident rate as companies experience greater variance relative to the PCL.

¹⁰⁷ [OF-OU-076] Ofwat, PR24 final determination models: Historical performance trends for PR24 V4.0, March 2025.

total expenditure allowances.¹⁰⁸ We considered this represented a stretching yet achievable common PCL target. The performance commitment measures average number of minutes lost per customer for the whole customer base for interruptions that lasted three hours or more. Further detail on setting the PCL and why we consider this PCL to be achievable but stretching for the sector as a whole is provided in section 2 of the outcomes document.¹⁰⁹

Company statement of case

7.86 Anglian Water considers that our approach to setting water supply interruption PCLs is inconsistent with the approach taken to set common PCLs for internal sewer flooding and total pollution incidents. The company considers the PCLs are unduly demanding for a notional efficient company. Additionally, the company notes that the 5-minute PCL is more demanding than the upper quartile performance level at 6 minutes and 18 seconds, and median levels at 9 minutes and 38 seconds.¹¹⁰

7.87 Anglian Water proposes that:

- the 2024-25 baseline for calculation of the PCLs is based on the median of companies' performance over the last four years; and
- the PCLs for each year of in the 2025-30 period are set on the basis of a glidepath from the 2024-25 baseline to the median of companies' PCLs for 2029-30.¹¹¹

Table 4.14: Anglian Water's water supply interruptions PCL: company proposal versus Ofwat's final determination (hh:mm:ss)

	2024-25	2025-26	2026-27	2027-28	2028-29	2029-30
Anglian Water proposal	-	00:08:43	00:07:47	00:06:51	00:05:56	00:05:00
Ofwat final determination	00:05:00	00:05:00	00:05:00	00:05:00	00:05:00	00:05:00

Our response

¹⁰⁸ [OF-OA-017] Ofwat, PR24 Final determinations: Delivering outcomes for customers and the environment, December 2024 (republished February 2025), p.87

¹⁰⁹ Ofwat, PR24 redeterminations – outcomes – common issues, April 2025, pp. 21-25 (s.2)

¹¹⁰ [OF-OA-001] Anglian Water, PR24 CMA Redetermination Statement of Case, p.150

¹¹¹ [OF-OA-001] Anglian Water, PR24 CMA Redetermination Statement of Case, p.150

- 7.88 We do not consider that the CMA should adopt the changes that Anglian Water proposes to the water supply interruption PCLs.
- 7.89 Anglian Water states that 'Ofwat's 5 minute PCL ...cannot reasonably be supported from a fair assessment of recent sector performance'. However, this implies that recent sector performance provides an acceptable measure of what is achievable. Our position is that water supply interruptions is an area in which performance is currently worse than expected for a number of companies across the sector and they need to take action to improve the service delivered for customers. This is especially important given customers have told us that water supply interruptions have a high impact on them.¹¹² We discuss more in detail about our approach to setting the common water supply interruption PCL in Section 2 of the PR24 redetermination – outcomes – common issues document.
- 7.90 Focusing on Anglian Water specifically, the company has previously delivered a performance of 5 minutes and 2 seconds in 2020–21, a significant improvement from 18 minutes and 39 seconds in 2019–20.¹¹³ This indicates that Anglian Water can deliver the required PCL of 5 minutes from the first year of the 2025–30 period and throughout the period.
- 7.91 In addition, the company received cost allowances of £461 million post the PR19 CMA redetermination for investment to increase interconnectivity across its network in the 2020–25 period.¹¹⁴ For PR24 final determinations, we have made an efficient cost allowance of £623.72 million for interconnections and resilience.
- 7.92 The company has requested that the PCL be adjusted to 00:08:43 in 2025–26. We note that the PR19 PCL for 2020–21 was set at 00:06:30. This represents a significant deterioration, effectively moving performance targets back by almost five years. As such we do not consider it to be in the best interests of customers to adjust the PCL to reflect poor levels of recent performance.¹¹⁵

¹¹² [OF-OU-017] Ofwat, Water company performance report 2023–24, October 2024, p. 18.

¹¹³ [OF-OU-026] Ofwat, PR24 FD CA13 Water supply interruptions model, December 2024, sheet 'FD_Input_Final_data'.

¹¹⁴ [OF-RR-013] CMA, Final report, p.523. Anglian Water received an increase of £38.9 million over Ofwat's FD allowance results in £390.7 million (2017–18 price base) for full internal interconnection delivery. Conversion to 2022/23 price using residential retail CPIH index of 1.18.

¹¹⁵ [OF-OA-022] Ofwat, PR24 final determinations: Expenditure allowances, February 2025, p. 184.

Aligning risk and return

7.93 We consider the issues raised by Anglian Water around risk and return should be considered thematically. Therefore, the issues outlined in table 4.15 below are all addressed in the 'Risk and return – common issues' document.

Table 4.15: Key issues in risk and return

Point in Anglian Water's statement of case	Statement of case (SoC) reference	For Ofwat's response see
Balance of risk and return	Chapter A, para 6i Chapter H.1, para 689 onwards	Risk and return – common issues – section 1 Balance of risk
Allowed return	Chapter A, para 12 onwards Chapter F, para 404i Chapter H.1, para 694 onwards	Risk and return – common issues – section 4 – Allowed return on equity
Return on equity	Chapter A, para 15 onwards Chapter H.1 Investability and Financeability Chapter H.2 WACC Chapter A, section 8.5	Risk and return – common issues – section 4 – Allowed return on equity
Outturn adjustment mechanism (OAM)	Chapter A, para 66 Chapter A, section 8.2v Chapter G.1, Introduction Chapter G.1, para 550 onwards	Risk and return – common issues – section 1 – Balance of risk
Investability and financeability	Chapter H.1	Risk and return – common issues – section 7 – Financeability
Cost of debt	Chapter H.2, para 769 onwards	Risk and return – common issues – section 3 – Allowed return on cost of debt
Cost of equity	Chapter H.2, para 719 onwards	Risk and return – common issues – section 4 – Allowed return on equity
RCV run-off rates	Chapter H.2, para 790 onwards	Risk and return – common issues – section 6 – Cost recovery
Retail margin adjustment	Chapter H.2, para 793 onwards	Risk and return – common issues – section 5 – Retail margin

Affordability

Table 4.16: Anglian Water's bill increases for AMP8 (£)

Anglian Water	2024-25	2025-26	2026-27	2027-28	2028-29	2029-30	5yr avg.
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Final determination¹¹⁶	£491	£547	£562	£600	£616	£631	£591
Statement of case¹¹⁷	£491					£695-714 ¹¹⁸	£639

- 7.94 Anglian Water identifies in its statement of case that customer's bills have seen a rise in real terms of just over 3% since privatisation, before PR24 final determination. However, in its October 2023 business plan, Anglian Water quotes a rise of little more than 10% excluding inflation in the 35 years since privatisation.¹¹⁹
- 7.95 If all of the additional asks from Anglian Water in its statement of case are agreed, this would result in an increase to the customer bill of 13.06% by 2030. Although the company indicated in its representation that 55% of customers¹²⁰ believed that an increase in cost was justified by the significant improvements and long-term benefits, Anglian Water does not disclose whether it has subsequently asked customers if they accept a further increase. Nor does the company include additional measures to assist customers who would struggle to pay this extra cost.
- 7.96 We welcome the introduction of a medical needs discount funded by shareholders, but we are concerned that Anglian Water has overstated the number of customers who would benefit from this type of intervention. With approximately 30,000 people in the UK receiving kidney dialysis treatment every year, with one in five being treated at home,¹²¹ it is unlikely that all 6,000 of these individuals live in the Anglian Water area.

¹¹⁶ [OF-ANH-006] Ofwat, PR24 final determination: FM02 Financial model Anglian Water, December 2024, tab 'Output RR14', cells H8 to L8.

¹¹⁷ [OF-OA-001] Anglian Water, Statement of Case', March 2025, p. 21, para 75.

¹¹⁸ It is not clear from Anglian Water's presentation or statement of case if this increase above final determination bills is 13.06% of the 2024-25 bill or is 13.06% of the 2029-30 bill. We present a range that includes both.

¹¹⁹ [OF-OU-075] Anglian Water, Price Review 2024: Anglian Water's Business Plan for AMP8 (2025-30) Draft Determination Representations, p 12.

¹²⁰ [OF-OU-075] Anglian Water, Price Review 2024: Anglian Water's Business Plan for AMP8 (2025-30) Draft Determination Representations, Section 10.3, p.72.

¹²¹ [OF-ANH-004] National Kidney Federation, National Kidney Federation's Call to Action on Home Dialysis Postcode Poverty, accessed April 2025

8. Areas for deprioritisation

- 8.1 We note that Anglian Water's statement of case does not provide an explicit or comprehensive statement of areas of our final determination that it either accepts or proposes for deprioritisation within the CMA's redetermination. We note that it states that 'the enhancement allowances made in the PR24 FD to be acceptable overall',¹²² and that it has 'de-prioritised for the purpose of the Redetermination ODIs for Serious Pollution Incidents, Biodiversity and Water Quality Contacts' PCs.¹²³
- 8.2 In response to the CMA's request, we have suggested in our 'PR24 redeterminations – overview of our response to the statements of case' document that the CMA could deprioritise redetermination of a number of the PR24 price review building blocks.¹²⁴ Our suggestions do not include enhancement allowances (aside from those eligible for our cost change process) or ODIs (with one exception for total pollution incidents).
- 8.3 As such, we do not agree with the suggestions from Anglian Water for deprioritisation from the CMA redetermination process. We reflect that both the PR24 price review process itself and the redetermination process undertaken by the CMA feature significant asymmetries, including a likelihood that companies have not proposed areas for redetermination where the potential outcome could lead to a less 'favourable' outcome.

¹²² [OF-OA-001] Anglian Water, Anglian Water – statement of Case, March 2025, para 394, p. 110.

¹²³ [OF-OA-001] Anglian Water, Anglian Water – statement of Case, March 2025, footnote 252, p. 120.

¹²⁴ Ofwat, PR24 redeterminations – overview of our response to the statements of case, Section 5.

A1 Appendix 1: Key financial metrics

A1.1 The main body of this document sets out the key interventions that we made to Anglian Water's business plan. This appendix provides further detail of the calculation of the final determination where we made a number of interventions to Anglian Water's business plan and/or draft determination representation position. Further detail on the interventions are set out in our documentation.

Table A1.1: Key financial metrics

	Draft determination	Company view (August 2024 representation)	Final determination
Average bill (2025–30) £	543.93	586.04	591.27
Average bill growth (%)	13	27	29
Allowed return (%)	3.72	4.06 to 4.56	4.03
RCV Growth (%)	22.4	32.7	38.2
Dividend yield (%)	2.0	2.1	4.1
ACICR simple (ratio)	1.68	1.69	1.71
ACICR weighted (ratio)	1.68	1.69	1.71
FFO/net debt simple (%)	10.0	10.0	10.3
FFO/Net debt weighted (%)	10.0	10.0	10.3
Run off rate (%)	4.14	4.13	4.13
Post financeability revenue adj (£m)	247.9	201.1	197.5

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