

WATER SERVICES REGULATION AUTHORITY

WATER INDUSTRY ACT 1991, SECTION 12

SOUTH EAST WATER LIMITED

**Notice of Reference: Determination of Price Controls
for the period from 1 April 2025**

18 March 2025

1. (a) South East Water Limited ("the Company") holds an Appointment as a water undertaker for the purposes of Chapter I of Part II of the Water Industry Act 1991 ("the Appointment");
(b) on 18 December 2024, the Water Services Regulation Authority ("Ofwat") gave notice to the Company of a determination under Condition B of the Appointment of the Price Controls for the period from 1 April 2025 ("the Disputed Determination"). The terms of the Disputed Determination are set out in Schedule 1 hereto;
(c) the Company has required Ofwat to refer the Disputed Determination to the Competition and Markets Authority ("CMA"). The terms of the Company's notice are set out in Schedule 2 hereto.
2. Ofwat, as required by section 12(3)(a) of the Water Industry Act 1991 and the Appointment, refers the Disputed Determination to the CMA.
3. The CMA shall report on and determine the Disputed Determination within a period of six months beginning with the date of this reference.

**Signed for and on behalf of the
Water Services Regulation Authority**



**David Black
Chief Executive**

December 2024

Notification of the PR24 final determination of price controls for South East Water Limited

David Hinton
Chief Executive Officer
South East Water Limited
Rocfort Road
Snodland
Kent
ME6 5AH

18 December 2024

Dear David

Final determination of price controls

I enclose the final determination by the Water Services Regulation Authority (Ofwat) of Price Controls for the period from 1 April 2025 to 31 March 2030. This sets out:

- The redesignation of certain activities from Retail Activities to Network Plus Water Activities;
- the Price Control for Network Plus Water Activities;
- the Price Control for Water Resources Activities;
- the Price Control for Retail Activities; and
- (in Annex 1) the Notified Item and Land sales assumptions;
- (in Annex 2) the Performance Commitments in relation to which Price Controls may be adjusted in-period; and
- (in Annex 3) the Revenue Forecasting Incentive formula.

This final determination will be published on our website. We are also publishing details on the outcomes and performance commitments for the company to deliver, together with information on our general approach and the reasons for our decisions.

We will publish information about the annual regulatory reporting, assurance requirements and our approach to PR24 reconciliations in 2025.

You have two months to decide whether to refer the determination to the Competition and Markets Authority. If you wish Ofwat to refer the determination you must let us know in writing no later than 18 February 2025.

Yours sincerely,

Chris Walters
Senior Director, Price Review

Notification by the Water Services Regulation Authority of its determination of Price Controls for South East Water Limited ("the Determination")

This is the Determination by the Water Services Regulation Authority ("Ofwat") of the Price Controls for Network Plus Water Activities, Water Resources Activities and Retail Activities. It is made by Ofwat in accordance with Part III of Condition B (Charges) of the company's Appointment as a water undertaker:

- after having had regard to all the circumstances which are relevant in the light of the principles which apply by virtue of Part I of the Water Industry Act 1991 in relation to Ofwat's determinations, including, without limitation, any change in circumstance which has occurred since the last Periodic Review or which is to occur; and
- in accordance with the statement setting out strategic priorities and objectives for Ofwat published by the Secretary of State.

The Price Controls will all apply for the five consecutive Charging Years starting on 1 April 2025.

Unless the contrary intention appears, words and expressions used in this document (including the capitalised terms) shall have the same meaning as in the Conditions of the Appointments. Common terms used in the formulae in this document are defined in the Glossary set out in Annex 4 of this document.

1. Designation of activities

The sets of activities that will be covered by the relevant Price Controls are set out below.

1.1 Network Plus Water Activities

All activities carried out by the Appointee in performance of its functions as a water undertaker that are not designated as Water Resources Activities or Retail Activities are Network Plus Water Activities.

Ofwat also designates as Network Plus Water Activities under sub-paragraph 8.9 of Condition B the following activities (previously designated as Retail Activities) to the extent that they are carried out by the Appointee in performance of its functions as a water undertaker:

Developer Services:

- providing developer information; and
- administration for new connections.

1.2 Water Resource Activities

Ofwat is not changing the activities that were designated as Water Resources Activities in 2019. These therefore continue to be the activities carried out as part of the Appointed Business that fall within the definitions of the following services in [Regulatory Accounting Guideline \(RAG\) 4.08 – Guideline for the table definitions in the annual performance report](#) (March 2019):

- Water resources – Abstraction licences; and
- Water resources – Raw water abstraction.

1.3 Retail Activities

Apart from the activities designated as Network Plus Activities under section 1.1 above, Retail Activities continue to be the activities designated as Retail Activities as part of the 2014 Periodic Review. These are (in summary) the following activities and costs:

Customer services including:

- billing;
- payment handling;

- remittance and case handling;
- charitable trust donations;
- vulnerable customer schemes; and
- network and non-network customer enquiries and complaints.

Debt management and doubtful debts.

Meter reading.

Other operating costs including:

- decision and administration of disconnections and reconnections;
- demand-side water efficiency initiatives;
- customer-side leaks;
- attributable other direct costs;
- attributable general and support expenditure; and
- attributable other business activities.

Attributable Business Rates.

1.4 Wholesale activities not covered by wholesale price controls

The Price Controls in respect of Water Resources Activities and Network Plus Water Activities will not apply to those activities for which there are Excluded Charges. Excluded Charges (as defined in Condition B) include:

- charges for a supply of water in bulk to another water undertaker;
- amounts payable in respect of an unmeasured supply of water by means of stand-pipes or water tanks and in respect of the erection or maintenance of stand-pipes or water tanks;
- charges for a supply of water provided by the Appointee under section 59 (Supplies for other public purposes) of the Water Industry Act 1991;
- amounts payable in relation to the provision of a water main;
- amounts payable in relation to connecting a service pipe with a water main and ancillary works;
- amounts payable in relation to the adoption of water mains or service pipes;
- charges for unmeasured supplies of water to cattle troughs;
- charges for unmeasured building water supplies;
- amounts payable in respect of an unmeasured supply of water by means of bowzers or water tankers;
- charges for unmeasured supplies of water to farm taps and other agricultural water points;

- amounts payable under any such agreement as is described in section 20(1)(b) of the Water Resources Act 1991 (including any such agreement entered into by the Water Authority under section 81 of the Water Resources Act 1963 with respect to any of the matters referred to in sections 81(1)(b) and 81(1)(d) of that Act as, by virtue of paragraph 29(1) of Schedule 26, has effect on and after the transfer date as a thing done by the Appointee); and
- charges payable under any agreement for any unmeasured supply of water which are calculated by reference to the rateable value of hereditaments, occupied by the person to whom the supply or services are provided, fixed in accordance with section 32, 33 or, as the case may be, 34 of the General Rate Act 1967 or, as the case may be, fixed in accordance with section 54 of the Local Government Finance Act 1988.

The current Excluded Charge in Condition B for amounts payable in relation to diversion works (the alteration or removal of any relevant pipe or other apparatus) that the Appointee is required to carry out under the New Roads and Street Works Act 1991 or any other statutory provision except a provision of the Water Industry Act 1991 only applies to the period from 1 April 2020 to 31 March 2025. Price Controls will therefore apply to these activities from 1 April 2025.

2. Price Controls

2.1 Price Controls for Network Plus Water Activities

In respect of the Appointed Business's Network Plus Water Activities, except those activities for which there are Excluded Charges, there shall be one single Price Control.

The Price Control will consist of in each Charging Year:

- the percentage change (expressed, in the case of an increase, as a positive number, in the case of a decrease, as a negative number, and, in the case of no change, as zero) in the Consumer Prices Index (H) between that published for the month of November in the Prior Year and that published for the immediately preceding November; and
- a number, "**K**", which may be a positive number or a negative number or zero.

Together these shall be expressed as a percentage and limit the change in the revenue allowed to the Appointed Business in each Charging Year in respect of the Network Plus Water Activities concerned.

For each Charging Year starting on or after 1 April 2025 the revenue allowed to the Appointed Business in respect of the Network Plus Water Activities concerned will be the product of the following formula:

$$R_t = R_{t-1} \times \left(1 + \frac{CPIH_t + K_t}{100} \right)$$

In relation to the Price Control for Network Plus Water Activities, the "**K**" numbers for each Charging Year are set out in Table 1.

Table 1: Price Control for Network Plus Water Activities 'K' numbers

Charging year beginning 1 April	2025	2026	2027	2028	2029
K number	7.36	8.01	6.08	3.51	3.56

2.2 Price Control for Water Resources Activities

In respect of the Appointed Business's Water Resources Activities, except those activities for which there are Excluded Charges, the Price Control shall consist of, in each Charging Year:

- the percentage change (expressed, in the case of an increase, as a positive number, in the case of a decrease, as a negative number, and, in the case of no change, as zero) in the

Consumer Prices Index (H) between that published for the month of November in the Prior Year and that published for the immediately preceding November; and

- a number, “**K**”, which may be a positive number or a negative number or zero.

Together these shall be expressed as a percentage and limit the change in the revenue allowed to the Appointed Business in each Charging Year.

For each Charging Year starting on or after 1 April 2025 the revenue allowed to the Appointed Business in respect of the Water Resources Activities concerned will be the product of the following formula:

$$R_t = R_{t-1} \times \left(1 + \frac{CPIH_t + K_t}{100} \right)$$

The “**K**” numbers for each Charging Year are set out in Table 2.

Table 2: Price Control for Water Resources Activities 'K' numbers

Charging year beginning 1 April	2025	2026	2027	2028	2029
K number	92.59	-19.26	-3.58	-1.04	4.61

2.3 Price Control for Residential Retail Activities

In respect of the Appointed Businesses’ Retail Activities, there shall be one single Price Control for the Appointed Business’s Retail Activities relating to the supply of water to household premises (as defined in section 17C of the Water Industry Act 1991) (“**Residential Retail Activities**”).

The Price Control for Residential Retail Activities:

- shall consist of a limit on the total revenue allowed to the Appointed Business in each Charging Year in respect of the Retail Activities concerned; and
- is set for a period of five consecutive Charging Years starting on 1 April 2025.

The total revenue allowed to the Appointed Business in each Charging Year in respect of Residential Retail Activities is **M** as set out in Table 3 multiplied by the average number of individual household premises (as defined in section 17C of the Water Industry Act 1991) that are supplied or served by the Appointed Business in a Charging Year).

Table 3: Price Control for Residential Retail Activities numbers

Charging year beginning 1 April	2025	2026	2027	2028	2029
M (£, outturn)	27.66	29.94	29.93	30.67	31.46

3. Demonstrating Compliance with the Price Controls

The Appointee shall provide such information as Ofwat may reasonably require in relation to annual regulatory reporting to demonstrate how the Appointee is complying, or has complied, with its obligation to levy charges in a way best calculated to comply with each Price Control applicable to it.

A1 Notified Items and Land Sales

Notified Items

Ofwat gives notice that the following items have not been allowed for when making the Determination:

1. Cyber security

Any increase in costs in the period from 1 April 2025 that is reasonably attributable to:

- (a) any new or changed legal requirement that applies to the Appointee in its capacity as a water undertaker; or
- (b) any new or changed guidance issued by the Cabinet Office or other body of competent jurisdiction about the level of threat that relevant undertakers need to take into account

in relation to the technical and organisational measures that the Appointee must take, or would be reasonably expected to take, to:

- (i) manage risks posed to the security of the network and information systems on which the Appointed Business relies;
- (ii) prevent and minimise the impact of incidents affecting the security of the network and information systems used for the purpose of carrying out the Regulated Activities, with a view to ensuring the continuity of the services provided by the Appointee in the course of carrying out the Regulated Activities.

Definitions

1. Words and expressions used in this Notified Item have the same meaning as in the Conditions of the Appointment of South East Water Limited as a water undertaker for the purposes of Chapter I of Part II of the Water Industry Act 1991, unless the contrary intention appears.
2. For the purposes of this Notified Item:

"network and information systems" has the same meaning as in the Network and Information Systems Regulations 2018 (SI 2018/506).

Additional note:

In the event of an Interim Determination, no account will be taken of any costs to the extent that they would have been, or would be, avoided by prudent management action (and for this

purpose what constitutes “prudent management action” shall be assessed by reference to the circumstances which were known or which ought reasonably to have been known to the Appointee at the relevant time).

2. Per- and poly fluoroalkyl substances (PFAS)

Any increase in capital expenditure to carry out works at treatment works to ensure the safety of drinking water with respect to per- and poly fluoroalkyl substances ("PFAS") in the period from 1 April 2025, beyond those costs and work that Ofwat allowed for when making the final determination of Price Controls, in circumstances where the Appointee demonstrates to the reasonable satisfaction of Ofwat that:

- (a) the Appointee has completed the necessary investigations to identify the works that are required to enable the Appointee to properly carry out its functions as a water undertaker; and
- (b) the works are required by a new notice given on or after 20 December 2024 under regulation 28(4) of the Water Supply (Water Quality) Regulations 2016.

Definitions

1. Words and expressions used in this Notified Item have the same meaning as in the Conditions of the Appointment of South East Water Limited as a water undertaker for the purposes of Chapter I of Part II of the Water Industry Act 1991, unless the contrary intention appears.
2. For the purposes of this Notified Item:

"drinking water" means water supplied by the Appointee or a water supply licensee that is intended for human consumption; and

"treatment works" means any treatment works developed or maintained by the Appointee for the purpose of complying with its duty under section 37 of the Water Industry Act 1991.

Additional notes:

1. In the event of an Interim Determination, no account will be taken of any costs to the extent that they would have been, or would be, avoided by prudent management action (and for this purpose what constitutes “prudent management action” shall be assessed by reference to the circumstances which were known or which ought reasonably to have been known to the Appointee at the relevant time).
2. Whether the necessary investigations to identify the works that are required to enable the Appointee to properly carry out its functions as a water undertaker have been completed will be assessed by reference to the undertaking given to the Secretary of State under

section 19(1)(b) of the Water Industry Act 1991 in relation to the Appointee's AMP8 PFAS Strategy and the Drinking Water Inspectorate Guidance to water companies entitled "Guidance on the Water Supply (Water Quality) Regulations 2016 (as amended) for England and Water Supply (Water Quality) Regulations 2018 for Wales specific to PFAS (per- and polyfluoroalkyl substances) in drinking water" (August 2024).

Land Sales

For the purposes of the Determination, Ofwat gives notice that for each of the five consecutive Charging Years starting on or after 1 April 2025:

- the value attributable to Relevant Disposals of Land allowed for in making the determination is zero; and
- variations in value received or expected to be received from Relevant Disposals of Land shall constitute a Relevant Change of Circumstance.

A2 Performance Commitments with in-period financial adjustments

Ofwat notifies the Appointee in accordance with Part 3A of Condition B that the Price Controls to be determined in respect of the Appointee's Retail Activities, Water Resources Activities and Network Plus Water Activities may be adjusted to reflect the Appointee's performance in relation to the following Performance Commitments:

Table A2.1: In-period financial Performance Commitments – Common PCs

Name of common Performance Commitment	Price Controls adjustments will apply to
C-MeX	100% Residential Retail Activities
D-MeX	100% Network Plus Water Activities
BR-MeX	100% Network Plus Water Activities
Water supply interruptions	100% Network Plus Water Activities
Compliance Risk Index (CRI)	100% Network Plus Water Activities
Customer contacts about water quality	100% Network Plus Water Activities
Biodiversity	50% Water Resource Activities and 50% Network Plus Water Activities
Operational greenhouse gas emissions (water)	15% Water Resource Activities and 85% Network Plus Water Activities
Leakage	100% Network Plus Water Activities
Per capita consumption (PCC)	50% Water Resource Activities and 50% Network Plus Water Activities
Business demand	50% Water Resource Activities and 50% Network Plus Water Activities
Serious pollution incidents	100% Network Plus Water Activities
Discharge permit compliance	100% Network Plus Water Activities
Repairs to burst mains	100% Network Plus Water Activities
Unplanned outage	100% Network Plus Water Activities

Table A2.2: Delayed Delivery Cashflow Mechanism

Performance Commitment	Price Controls adjustments will apply to
Water enhancement expenditure (2025-27): Enhancement expenditure incurred in the period from 1 April 2025 to 31 March 2027 is not less than 50% of the total enhancement expenditure allowed for the two consecutive Charging Years starting on 1 April 2025 in respect of Network Plus Water Activities and Water Resource Activities when the Price Controls for those activities were determined by Ofwat in 2024 or redetermined by the Competition and Markets Authority.	Water Resource Activities and Network Plus Water Activities
Water enhancement expenditure (2025-28): Enhancement expenditure incurred in the period from 1 April 2025 to 31 March 2028 is not less than 60% of the	Water Resource Activities and Network Plus Water Activities

total enhancement expenditure allowed for the three consecutive Charging Years starting on 1 April 2025 in respect of Network Plus Water Activities and Water Resource Activities when the Price Controls for those activities were determined by Ofwat in 2024 or redetermined by the Competition and Markets Authority.	
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Reconciliation for 2024-25 outturn performance in relation to financial performance commitments

Ofwat further notifies the Appointee in accordance with Part 3A of Condition B that the Price Controls determined in respect of the Appointee's Retail Activities, Water Resources Activities and Network Plus Water Activities may be adjusted to reflect the Appointee's performance in the Charging Year beginning on 1 April 2024 ("2024-25 Charging Year") in relation to all the Performance Commitments set out in the company-specific Outcomes performance commitment appendix (read together with the agreed corrections (if any) and changes published by Ofwat) to the determination of Price Controls by Ofwat pursuant to the 2019 Periodic Review. The adjustment to the relevant Price Control in relation to each such Performance Commitment would be the difference between:

- a. either:
 - i. the adjustment(s) to the revenue allowed to the Appointed Business that Ofwat made to reflect the Appointee's forecast performance in the 2024-25 Charging Year in relation to that Performance Commitment when determining, pursuant to the 2024 Periodic Review, the Price Controls for the five consecutive Charging Years beginning on 1 April 2025; or
 - ii. if there was no such adjustment, zero;

AND

- b. the adjustment(s) to revenue that Ofwat would have made when determining Price Controls pursuant to the 2024 Periodic Review if the Appointee's actual performance in the 2024-25 Charging Year in relation to that Performance Commitment had been known.

A3 Revenue Forecasting Incentive Formula

Revenue Forecasting Incentive: Price Control for Network Plus Water Activities

The RFI for network plus water activities will be determined according to the following formula:

$$RFI_t = - (RR_{t-2} - AR_{t-2}) \times \left(1 + \frac{D}{100}\right)^2 \times (1 + CPIH_{t-1}) \times (1 + CPIH_t) - PS_{i,t} \times \frac{PR}{100} \times \left| RR_{t-2}^* - AR_{t-2}^* \right| \times \left(1 + \frac{D}{100}\right) \times (1 + CPIH_{t-1}) \times (1 + CPIH_t)$$

The RFI for network plus water activities, **RFI_t**, the recovery of un-invoiced revenue from a failed retailer (**UIR_t × 0.5**), and any blind year adjustment, **BYA_t**, is added to allowed revenues for network plus water activities, **R_t**, to calculate adjusted allowed revenues for network plus water activities, according to the following formula:

$$AR_t = R_t + BYA_t + RFI_t + (UIR_t \times 0.5)$$

Revenue Forecasting Incentive: Price Control for Water Resources

The RFI for water resources activities will be determined according to the following formula:

$$RFI_t = - (RR_{t-2} - AR_{t-2}) \times \left(1 + \frac{D}{100}\right)^2 \times (1 + CPIH_{t-1}) \times (1 + CPIH_t) - PS_{i,t} \times \frac{PR}{100} \times \left| RR_{t-2}^* - AR_{t-2}^* \right| \times \left(1 + \frac{D}{100}\right) \times (1 + CPIH_{t-1}) \times (1 + CPIH_t)$$

The RFI for water resources activities, **RFI_t**, the recovery of un-invoiced revenue from a failed retailer (**UIR_t × 0.5**), and any blind year adjustment, **BYA_t**, is added to allowed revenues for water resources activities, **R_t**, to calculate adjusted allowed revenues for water resources activities, according to the following formula:

$$AR_t = R_t + BYA_t + RFI_t + (UIR_t \times 0.5)$$

Where for each of controls to which the RFI relates:

$$BYA_t = TBYA \times Y_t \times \left(1 + \frac{D}{100}\right)^{T-2024} \times CPIH \text{ adjustment factor}_t$$

AR_{t-2} is the adjusted allowed revenue stated in £ millions in charging year t-2 with the first year starting on 1 April 2025.

RR_{t-2}^* has the same meaning as RR_{t-2} , except in this case this applies to the sum of both the network plus water and water resources controls.

AR_{t-2}^* has the same meaning as AR_{t-2} , except in this case this applies to the sum of both the network plus water and water resources controls.

PR is the penalty rate. Denoting the forecast error $(RR_{t-2}^* - AR_{t-2}^*) / AR_{t-2}^* = x\%$, the penalty rate is:

- 3% for all variations if $|x\%| > 3\%$;
- $3\% * (|x\%| - 2\%) / (3\% - 2\%)$ if $2\% < |x\%| \leq 3\%$; and
- zero if $|x\%| \leq 2\%$.

The result enters the above formulas as a number. For example, for a penalty rate of 3%, PR enters the formula as number 3.

$PS_{i,t}$ is the share of the penalty that the Appointee chooses to allocate to the control in charging year t ,

- where i = network plus water or water resources control; and
- the PS_i values must sum to one¹ for each charging year.

BYA_t is the blind-year adjustment, stated in £ millions, to the allowed revenue of the relevant network plus or water resources control in each year over the charging years 2026–27 to 2029–30, inclusive.

UIR_t The total amount in £ millions owed to the Appointed Business for activities in charging year $t-2$ to which the relevant network plus or water resources Price Control applies by one or more Licensees that have ceased to be a legal entity (or, if the Licensee is an individual, has died) in relation to the period following the end of the period that was covered by the last invoice issued to the Licensee by the Appointee for those activities.

TBYA is the blind year adjustment stated by Ofwat in 2022–23 year average prices. The blind year adjustment will be announced by Ofwat at a future date. The adjustment will be based on:

- (a) the difference between forecast and actual performance for the 2024–25 Charging Year in relation to the Revenue Forecasting Incentive (RFI) model, the cost of new debt reconciliation model, Tax reconciliation, Cost sharing & total costs reconciliation, the RPI-CPIH wedge reconciliation model, the Developer services reconciliation adjustment mechanism, the Strategic regional water resources

¹ That is, $PS_{\text{water resources}} + PS_{\text{water network plus}} = 1$

model and the Water Trading Incentive model applied in relation to the 2020 to 2025 Price Control period; and

- (b) the correction of any unambiguous revenue errors in relation to the revenue allowed to the Appointee that Ofwat made when determining the Price Controls for the five consecutive Charging Years beginning on 1 April 2025.

It will be a correction to the revenue allowed by Ofwat when determining, pursuant to the 2024 Periodic Review, the Price Controls for water resources and network plus activities for the five consecutive Charging Years beginning on 1 April 2025. The adjustment will not include the 2024–25 performance commitments.

Y_t is the share of the blind year adjustment that the company has elected to receive in Charging Year t within the period of five consecutive Charging Years starting on 1 April 2025. This allows the company to spread the impact of the blind year adjustment over the relevant years. The Y_t values across all of the charging years for each relevant Price Control must:

- sum to one, if the blind year adjustment is negative;
- sum to one or less, if the blind year adjustment is positive; and
- be greater than or equal to zero.

T = the year in which the relevant charging year begins – for example:

- for the charging year 2027–28 then $T = 2027$;
- for the charging year 2028–29 then $T = 2028$; and
- for the charging year 2029–30 then $T = 2029$.

A4 Glossary

Common terms used in formulae in this document are defined below.

Term	Where used	Definition
$CPIH_t$	Network-plus, water resources, RFI	The percentage change (expressed, in the case of an increase, as a positive number, in the case of a decrease, as a negative number, and, in the case of no change, as zero) in the Consumer Prices Index (H) between that published for the month of November in the Prior Year and that published for the immediately preceding November.
CPIH adjustment factor _t	Water resources, RFI	One plus the percentage change in the Consumer Prices Index (H) between that published for the month of November in the Prior Year and that published for November 2021.
D	Water resources, RFI	The specified discount rate of 3.97.
FYA CPIH	Water resources	The percentage change (expressed, in the case of an increase, as a positive number, in the case of a decrease, as a negative number, and, in the case of no change, as zero) in the average level of the Consumer Prices Index (H) across the twelve months of the Charging Year compared to the average level of the Consumer Price Index (H) across the twelve months of the Prior Year.
K_t	Network-plus, water resources	A specified number for the relevant Charging Year which may be a positive number or a negative number or zero.
t	All	A suffix added to a term to indicate the Charging Year. For example, R_t refers to the relevant Charging Year.
t-1	All	A suffix added to a term to indicate the Prior Year. For example, R_{t-1} refers to the Charging Year starting one year before the start of the relevant Charging Year.
t-2	All	A suffix added to a term to indicate the Charging Year commencing on 1 April immediately prior to the Prior Year. For example, R_{t-2} refers to the Charging Year starting two years before the start of the relevant Charging Year.
R_t	Network-plus, water resources	Revenue stated in £ millions allowed to the Appointed Business in a Charging Year by a Price Control in respect of the activities concerned.
RR_t	RFI	The revenue stated in £ millions recovered by the Appointed Business in a Charging Year in outturn prices. In both the RFI and Price Control for Bioresources Activities, the first year, t, starts on 1 April 2027 so that year t -2 starts on 1 April 2025.

**Ofwat (The Water Services Regulation Authority)
is a non-ministerial government department.
We regulate the water sector in England and Wales.**

Ofwat
Centre City Tower
7 Hill Street
Birmingham B5 4UA
Phone: 0121 644 7500

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Our Ref: OM/LS
Your Ref:

Confidential and privileged

David Black
Chief Executive
Ofwat
Centre City Tower
7 Hill Street
Birmingham
B5 4UA

18 February 2025

Dear David

Ofwat PR24 Final Determination: Reference to the Competition and Markets Authority

This letter is a formal notice, on behalf of the Board of South East Water Limited, requiring Ofwat to refer the PR24 Final Determination (**PR24 FD**) to the Competition and Markets Authority (**CMA**), in accordance with section 12 of the Water Industry Act 1991 (**WIA91**) and our Instrument of Appointment.

The Board has reached the decision to require a reference to the CMA after comprehensive and careful consideration. Whilst the PR24 FD is a significant improvement on Ofwat's previously published Draft Determination, we believe that it is fundamentally flawed and threatens water security in our regions. The Board therefore has concluded that the company must exercise its right under section 12 WIA91 to seek a second opinion on the PR24 FD from the CMA's "fresh pair of eyes".

We have engaged with Ofwat in a constructive manner throughout the price review process, have been clear on the water security and resilience challenges that the company faces, and have set out how our business plan was developed to address these challenges.

However, Ofwat's failure to address our company-specific circumstances and external challenges, coupled with acknowledged gaps in the regulatory framework at PR24, leaves us precariously positioned – needing everything to 'go right' in AMP8 for us to deliver for our customers. We face a 13% funding gap overall and much larger gaps in key areas of water security, significant penalties for water supply interruptions and a material imbalance in risk

Customer enquiries: 0333 000 1122
24 hour emergencies: 0333 00 00 365
Web: southeastwater.co.uk

Pure know **h₂ow**

and return. Taken together, this undermines financeability and our plan for resilience now and in the future.

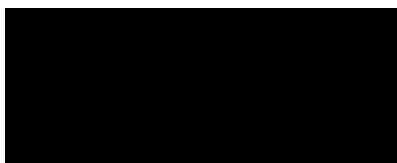
More specifically, key issues with the PR24 FD include, but are not limited to, the following:

- (a) **Costs:** Ofwat's costs methodology across base costs and enhancement costs is technically flawed and too generic and its application results in unwarranted underfunding of efficient and necessary costs – these issues are further compounded when Price Control Deliverables are attached to schemes with insufficient funding. In addition, conditions to access the ring-fenced £50m resilience contingent allowance are too restrictive and do not protect consumer interests.
- (b) **Outcomes:** Ofwat's approach to water supply interruptions is unfair, disproportionate, punitive – and disconnected from the timing of our related resilience investment.
- (c) **Risk and reward:** There is a material imbalance in Ofwat's package. Risk is increasing and the allowed return is not fair or commensurate with the returns that equity investors can obtain on comparable investment opportunities elsewhere.
- (d) **Financeability and investability:** Overall, the PR24 FD is not financeable or deliverable. The allowed return is objectively too low for equity investors and undermines debt financing and there is insufficient financial headroom to allow SEW to manage emerging and existing risks.

Given the scale and ambition of our AMP8 plans, and the continued engagement we have had with Ofwat during the price review process, we had sincerely hoped that a CMA reference would not be necessary. However, the issues that remain in the PR24 FD are simply too important – leaving unacceptable water security risks for our customers in the short and longer term and undermining our plan to re-establish headroom, operational flexibility and resilience particularly in our Kent and Sussex regions.

We trust this letter provides a helpful outline of our reasons for requiring a reference. We will continue to move ahead positively with Year 1 delivery whilst engaging constructively with your team throughout the CMA redetermination process.

Yours sincerely



David Hinton
CEO

Customer enquiries: 0333 000 1122
24 hour emergencies: 0333 00 00 365
Web: southeastwater.co.uk

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