

Centre City Tower, 7 Hill Street, Birmingham B5 4UA  
11 Westferry Circus, Canary Wharf, London E14 4HD

---

By email

14 May 2025

Dear Kirstin

We welcome the opportunity to respond to the recent submissions by the disputing companies, which provided comments on each other's statements of case.

To assist the CMA, we have kept our response short and focused. Where necessary and where we have had sufficient time to do so, we respond to new information submitted by the disputing companies in the Annex. We do not introduce any new information or evidence, except where we are responding to new points. Our final determinations publications remain the fullest account of why we made our decisions at PR24, and our response to the statements of case covers the majority of issues raised.<sup>1</sup> We would welcome the opportunity to feed into the CMA's deliberations on new material submitted by the companies, for example through submissions on working papers.

## Prioritisation of issues

The disputing companies' submissions are, inevitably, selective. The process naturally incentivises them not to cover areas where our decisions may be seen as relatively 'favourable' to them. However, in certain cases, companies request that a relatively 'favourable' position is maintained. For example, Northumbrian Water argues the outcomes package – which it stands to outperform based on its own forecasts – should not be fully reopened,<sup>2</sup> in contrast to the positions of Anglian Water, Southern Water and South East Water. Anglian Water, which received a higher allowance than requested for phosphorus removal, disagrees with Wessex Water and states our approach was 'fair and fit for purpose'.<sup>3</sup> The range of views supports the CMA's balanced approach to prioritisation, which considers which issues have the largest effect on bills and other outcomes.<sup>4</sup>

---

<sup>1</sup> [OF-OA-032] Ofwat, Final determinations in the 2024 price review, December 2024.

<sup>2</sup> Northumbrian Water, [Response to other company SoCs](#), April 2025, p. 3, paras 11–12.

<sup>3</sup> Anglian Water, [Response to Disputing Companies' Statements of Case](#), April 2025, pp. 10–14.

<sup>4</sup> [OF-OA-034] CMA, Water References: Competition and Markets Authority Guide, December 2024, p. 13.

We see nothing in the submissions to suggest a need to revise the areas we highlighted for deprioritisation from the redeterminations.<sup>5</sup> Many of those areas are not raised in the submissions, although all five companies raise the issue of asset health. In our engagement to date, the sector has shown support for our approach to assessing asset health at PR24 and our decision to further enhance asset health understanding during the 2025–30 period. Most companies have responded positively and are actively engaging with our process.<sup>6</sup> This is echoed by Pennon Group's submission, which welcomes a more pragmatic approach to asset health at PR24, and supports our commitment to gathering more forward-looking asset condition data to strengthen the approach for PR29.<sup>7</sup> There has been general acceptance that until priority assets are identified, the right funding mechanism cannot be decided.<sup>8</sup> We continue to consider there is an opportunity for the CMA to deprioritise this area.

We consider the submissions particularly reinforce the case for deprioritising the redetermination of the base cost models. Anglian Water, Southern Water and South East Water signal disagreements with each other around what cost drivers are appropriate.<sup>9</sup> Each company's proposed changes would increase allowances for them, but not necessarily improve the robustness of the models for the sector. Our models have been developed over many years in consultation with companies and other stakeholders, as recognised by Northumbrian Water's submission.<sup>10</sup>

We welcome the wide range of third-party submissions to the CMA, which show the variety of views on areas both raised and not raised by the disputing companies.<sup>11</sup> We are also aware of other contributions made by environmental stakeholders.<sup>12</sup> While we do not respond to these submissions here, we are happy to assist the CMA to develop ways in which contributions from third parties can be considered during the process.<sup>13</sup> We remain concerned about the lack of transparency and clarity in company submissions to date, which makes it harder for third parties to meaningfully engage with them. The impact of any changes to company

---

<sup>5</sup> Ofwat, [PR24 redeterminations – Overview of our response to the statements of case](#), April 2025, pp. 31–36, paras 5.2–5.12.

<sup>6</sup> Notes and slides of our asset health working group meetings and workshops can be found at Ofwat, [Enhancing Asset Health Understanding Workstream](#), April 2025.

<sup>7</sup> [OF–OA–043] Pennon Group, PR24 Redetermination – Third Party Submission, April 2025, p. 7.

<sup>8</sup> Ofwat, [Roadmap for enhancing asset health understanding in the water sector. Workshop 1: Asset inventory & priority assets](#), February 2025, slides 4, 18–21, and the accompanying [meeting summary](#).

<sup>9</sup> For example, Southern Water disagrees with South East Water's proposal to include average pumping head (APH) and booster pumping station (BPS) in the same model: Southern Water, [Response to Other Disputing Companies' Statements of Case](#), pp. 6–7, paras 29–34. Anglian Water also disagrees with South East Water's proposal, as well as Southern Water's proposal to remove APH from the base cost models: Anglian Water, [Response to Disputing Companies' Statements of Case](#), April 2025, pp. 5–9. South East Water sets out its continued support for including both APH and BPS in the base cost models: South East Water, [Submission on Other Disputing Companies' Statements of Case](#), April 2025, pp. 6–7, paras 2.6–2.9.

<sup>10</sup> Northumbrian Water, [Response to other company SoCs](#), April 2025, pp. 9–10, para 41.

<sup>11</sup> [OF–OA–067] CMA, Water PR24 price redeterminations, May 2025.

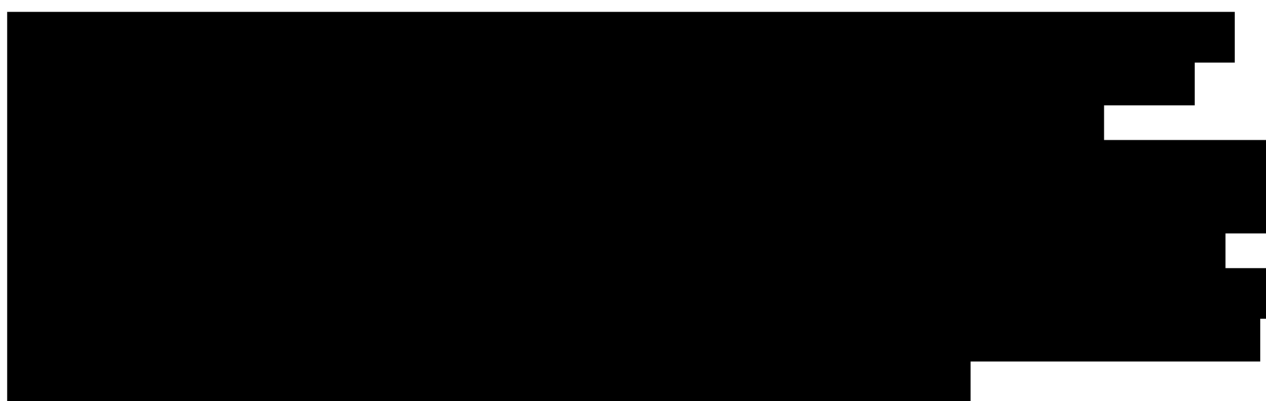
<sup>12</sup> For example, Windrush Against Sewage Pollution, [It pays to cheat?](#), April 2025.

<sup>13</sup> As it was commissioned by Anglian Water and Northumbrian Water, we do briefly respond to the submission by Alan Sutherland.

proposals on requested expenditure allowances, outcomes and customer bills remains largely unclear.

## Managing new information

In some instances, the disputing companies have introduced more new information into the redeterminations process. For example, South East Water has submitted a new report on climate change impacts.<sup>14</sup> Anglian Water and Northumbrian Water have commissioned a report from Alan Sutherland, former Chief Executive at the Water Industry Commission for Scotland, on capital maintenance, submitted alongside the third party submissions.<sup>15</sup> This is in addition to significant amounts of updated or revised information provided since the final determinations, including a number of advisory reports.<sup>16</sup>



One option to manage new information and potential changes to company proposals would be for the CMA to set a cut-off date for using new evidence to inform the redeterminations, as suggested in our previous submission [REDACTED].<sup>17</sup> In practice, we think this could involve limiting the information used to set the redeterminations to that which:

- was available to us when we set our PR24 final determinations in December 2024; or
- has become available since our PR24 final determinations, and the company could not have reasonably provided it to us during the price review process.

As much as possible, we want to see companies get their business plans right first time, by developing high-quality and ambitious proposals for scrutiny during the price review process. It would not be in the interests of customers and the environment if some companies began

---

<sup>14</sup> The report appears to be based on the single hottest gridsquare (East-1) over a short five-year period. So it is unclear how representative this report is of longer-term climate change impacts. It is also unclear why this analysis was not submitted as part of the company's original business plan.

<sup>15</sup> Alan Sutherland, [Insights from debates on Asset replacement in Scotland](#), April 2025.

<sup>16</sup> For example, [OF-RR-100] Kairos Economics, Cost of equity estimation, March 2025; [OF-RR-084] KPMG, Estimating the cost of capital for PR24, March 2025; [OF-RR-009] KPMG, PR24 Final Determinations – risk analysis for a notional company, January 2025; [OF-RR-090] Oxera, PR24 Cost of Equity Estimation, March 2025; [OF-RR-091] Oxera, PR24 Cross-checks to CAPM estimation; Oxera, Investability and Financeability in PR24, March 2025.

<sup>17</sup> Ofwat, [PR24 redeterminations – Overview of our response to the statements of case](#), April 2025, p. 38, para 5.18.

to regard the redeterminations as an additional opportunity to expand or improve their plans, or to resolve issues that could have been addressed earlier.

Further, our final determinations include a range of mechanisms designed to address and anticipate uncertainties over the 2025–30 period. It is right that companies have the opportunity to raise issues around the suitability of these arrangements and the fair allocation of risk between companies and customers. However, we would differentiate this from company requests to reflect a recent change in circumstances in their redeterminations. There is no more convincing an argument for 'correcting' the determinations after one year than there is for doing so at any other point in the price control period. We think there is an option for the CMA to streamline the redeterminations, by considering these requests only in the context of whether risk and uncertainty mechanisms may be insufficient to manage change over the period.

We consider the ability to introduce new data and arguments to the process gives a 'wait-and-see' option value to the redeterminations process, which benefits disputing companies over their peers. This is because the passage of time results in new data that is either advantageous or detrimental to the disputing companies. However, as discussed above, they are incentivised to only introduce advantageous data. Further, other companies that may have been disadvantaged by the disputing companies' proposals lack the same voice they had in the standard price review process. Overall, this amounts to a concerning 'missing advocate problem', which we consider would be mitigated by using the same data cut-off as our final determinations. For example, in our final methodology, we signalled our early intention to use a September cut-off date for the data used to set the allowed return on capital.<sup>18</sup>

All five disputing companies raise the allowed return in their submissions, with broad alignment between their positions. We have already provided evidence to demonstrate that the allowed return, which includes an allowed return on equity that is a rounded figure at the top of our cost of equity range, is sufficient to support investment in the 2025–30 period. This includes evidence of new equity, equity commitments and debt raised since our final determinations and evidence from the valuations of the listed companies. The evidence suggests that the allowed return, alongside the risk and return package set at PR24, is sufficient to support companies to deliver the required levels of investment in the 2025–30 period. However, to the extent that the allowed return is updated as part of the redetermination process, it is important to consider the evidence we have provided on inflation as part of the redetermination of the components of the allowed return, and that adequate consideration is given to the reasons why the allowed return could, in fact, be lower.

---

<sup>18</sup> [OF-OU-002] Ofwat, Creating tomorrow, together: Our final methodology for PR24, December 2022, p. 95.

We underline our continued commitment to giving the CMA all the assistance we can throughout the redetermination process, to help it achieve its overriding objective and deliver the best outcomes for customers and the environment.

Yours sincerely



**Chris Walters**  
**Senior Director, Price Review**



## A1 Our response to selected issues

### Expenditure allowances

#### Southern Water proposal for a notified item relating to health and safety requirements at sludge treatment centres

- A1.1 Southern Water proposes a notified item for all companies to cover future **health and safety related costs** arising from new requirements at sludge treatment centres from the Health and Safety Executive (HSE),

<sup>19</sup>

It would be appropriate to provide a cost adjustment for investment required to comply with **new** obligations, for which compliance has not been previously funded. Customers should not have to pay twice where they have already paid, or are currently paying, for companies to achieve compliance with pre-existing requirements.

#### Request for a national insurance contributions base cost adjustment

- A1.2 Southern Water, Wessex Water and Water UK ask the CMA to allow an additional base expenditure adjustment to account for the increase in **employers' national insurance contributions** resulting from the UK October 2024 budget announcement, which they consider will result in significant higher labour costs for water companies.<sup>20</sup>
- A1.3 We acknowledge this increase is not covered by our labour real price effect uplift.<sup>21</sup> We expect that some of the increase will be passed on to customers in the form of higher prices. Water companies' revenues are inflation-indexed and so would be protected to the extent to which the national insurance increase is passed through in general inflation. However, it is difficult to estimate how much will be passed through to prices,<sup>22</sup> and it may not be material. Analysis based on the October 2024 Economic and

<sup>19</sup> Southern Water, [Response to Other Disputing Companies' Statements of Case](#), April 2025, p. 14, paras 68–70.

<sup>20</sup> The budget announcement increased the secondary Class 1 NICs rate from 13.8% to 15% from 6 April 2025.

<sup>21</sup> Our labour real price effect uplift is based on the ONS Annual Survey of Hour and Earnings (ASHE) construction wage index, which covers employees earnings rather than costs to the employer. See [OF-OA-022] Ofwat, PR24 final determinations: Expenditure allowances, February 2025, p. 274.

<sup>22</sup> As per our PR24 final determinations, Water UK's industry estimated impact for the 2025–30 period was adjusted from an initial £500 million to £382 million. See [OF-OA-022] Ofwat, PR24 final determinations: Expenditure allowances, February 2025, p. 30.

Fiscal Outlook suggests only 15.2% of the national insurance contributions increase will be passed through to prices.<sup>23</sup>

- A1.4 We have thought about an approach to determining a potential cost adjustment, and would be happy to discuss with the CMA if helpful.

### New and increased Environment Agency levies

- A1.5 Southern Water raises a new issue on the full cost recovery for new and increased **Environment Agency levies**. It states these are not reflected in historical cost models and will add £2.9 million to annual costs (equivalent to 0.2% of totex). The Environment Agency published two consultations in April. The first is on a new water industry enforcement levy, which will help to fund an improved approach to regulation by resourcing the Environment Agency's enforcement activity for the water industry.<sup>24</sup> The proposal enables it to recover enforcement costs based on its existing functions and duties. The second is on proposals to change its charges schemes to recover the cost of providing its services.<sup>25</sup> The consultations close in late May, so the costs are still uncertain. Environment Agency service charges and discharge consents are subject to 25:25 cost sharing rates, which means that 75% of any overspend against allowances will be recovered from customers. Therefore, companies have significant protection against unexpected changes in costs.
- A1.6 At PR24, we did not undertake a deep dive assessment where costs were not material. To determine this, we used a threshold of 0.5% of company totex or £10 million, whichever was the greater. As the disputing companies are only likely to raise issues where costs increase rather than fall, the CMA could use a similar materiality threshold for considering changes or cost gaps as part of the redetermination process.

### Additional report on setting capital maintenance allowances in Scotland

- A1.7 Anglian Water and Northumbrian Water have also jointly funded **a report submitted as a third party response by Alan Sutherland** on the approach to water regulation and setting capital maintenance allowances in Scotland.<sup>26</sup> The report makes no reference or response to the disputing companies' statements of case or the final determination.<sup>27</sup> The report highlights some of the key concerns we have with the application of the WICS approach to determining capital maintenance allowances in England and Wales. Namely, the focus on asset age as the sole indicator of asset

---

<sup>23</sup>Office for Budget Responsibility, [Economic and Fiscal Outlook](#), October 2024, p. 54. Of the 76% increase in costs expected to be passed through in lower wages, one fifth is assumed to be through higher prices (76% x20% = 15.2%).

<sup>24</sup> Environment Agency, [Environment Agency charges consultation: Water industry enforcement levy](#), April 2025.

<sup>25</sup> Environment Agency, [Environment Agency charge proposal: cost of service](#), April 2025.

<sup>26</sup> Alan Sutherland, [Insights from debates on Asset replacement in Scotland](#), April 2025.

<sup>27</sup> Beyond referring to reading the disputing companies' statements of case in the report's introduction on p. 3.

health and the need to replace an asset, and using this to determine efficient allowances. It also fails to account for the clear differences between Scottish Water, a publicly-owned company, and privately-owned water companies in England and Wales, and how incentives differ between the two. We discuss this and the concerns raised by the disputing companies in our response to the statements of case.<sup>28</sup>

A1.8

[REDACTED]  
[REDACTED] We queried companies on why asset condition has been maintained while renewal rates have fallen, when reviewing their annual performance report submissions. We were concerned that companies were delivering a mains renewal rate of around 0.1% per year, which is clearly not a long-term sustainable renewal rate, and below the 0.4% per year average renewal rate forecast to be delivered in PR19 business plans. As stated in our final determinations, we expect the sustainable mains renewal rate to be between 0.6% and 0.8% per year in the long term, which assumes an asset life of between 125 and 160 years for modern plastic pipes.<sup>29</sup>

A1.9 In response to our query, companies highlighted the re-optimisation of planned investment to achieve greater impact in the short term. This included pressure management and focusing on more complex mains renewals with higher unit cost but fewer kilometres of mains renewed. Companies also stated that the level of mains renewal in business plans was not needed. This is difficult to understand, given that companies identified the need to increase mains renewals as a priority during development of our PR24 methodology and in business plans.

A1.10 Even harder to understand was the reference to Covid-19 and unexpected input price pressures for reasons why mains were not renewed as planned. Cost sharing and other uncertainty mechanisms are in place to help mitigate the risk of unexpected cost pressures. Companies should not divert money away from required asset renewals, as this means that companies have failed to deliver what they committed to customers and the environment, and risks storing up problems for the future.

## Outcomes

A1.11 All disputing companies broadly maintain that the PR24 outcomes package does not represent a 'fair bet' and is weighted towards downside risk. In most areas, they do not present new evidence. However, Anglian Water raises new concerns regarding the **biodiversity performance commitment level (PCL)**.<sup>30</sup>

---

<sup>28</sup> Ofwat, [PR24 redeterminations – expenditure allowances – addressing asset health](#), April 2025; [OF-CA-255] Mott Macdonald, Determining Capital Maintenance Allowances, April 2025, pp. 12-14.

<sup>29</sup> [OF-OA-022] Ofwat, PR24 final determinations: Expenditure allowances, February 2025, p. 37.

<sup>30</sup> Anglian Water, [Response to Disputing Companies' Statements of Case](#), April 2025, p. 17.



- A1.12 The common performance commitment (PC) for biodiversity is new for PR24. Anglian Water argues our definition of land area increases the number of biodiversity units to be delivered by water and sewerage companies (WaSCs). Since companies submitted their statements of case, we have updated the PCL and outcome delivery incentive (ODI) rates for biodiversity to be compliant with the PC definition.<sup>31</sup> Through our query process, we identified an error in how some companies were normalising their biodiversity units, and we asked a number of companies, including Anglian Water, to resubmit their land area to comply with the PC definition. For example, some of the WaSCs had not combined their land area for both water and wastewater, as required by the definition. This has resulted in a change to the common PCL for biodiversity in 2028-29, from 0.08 biodiversity units per 100km<sup>2</sup> to 0.05 biodiversity units per 100km<sup>2</sup>. It also impacts the ODI rates for companies that resubmitted their land area.
- A1.13 These changes mean that the WaSCs that used the correct company area for normalisation will face a less stretching target for 2028-29 (including Wessex Water), while those which used the wrong company area for normalisation will face a more stretching target in 2028-29 and 2029-30 (including Anglian Water, Northumbrian Water and Southern Water). We have written to the CMA and the affected companies setting out the impact of these changes.

## Risk and return

- A1.14 There is broad alignment between the disputing companies on the **allowed return on capital**. This is not surprising, as there is some commonality in the use of advisers, and where different consultants have been used, key elements of the analysis (eg multi-factor models) draw on the analysis carried out by one set of academic advisers, using their preferred model specification. We have already set out that the information provided by the disputing companies on the allowed return uses evidence selectively.<sup>32</sup> For this reason, we do not provide further representation on the additional material provided in these latest submissions.
- A1.15 However, given the significant volume of new information submitted in the statements of case, the limited opportunity provided for our comment and the clear indication that further information is to be provided for consideration in the redetermination process, we would welcome the opportunity to feed into the CMA's deliberations on this new material, for example by providing input to any working papers prepared as part of the process.
- A1.16 Anglian Water emphasises a claim that the CMA should express a view on the allowed return on equity beyond the 2025-30 period, including that it should be higher after

---

<sup>31</sup> Ofwat, [PR24 Performance Commitment Model: Biodiversity](#), April 2025.

<sup>32</sup> Ofwat, [PR24 redeterminations – Overview of our response to the statements of case](#), April 2025, p. 27, para 4.37.

2030 and higher even than the rate of 6.25% proposed by the company.<sup>33</sup> We consider such a request should not be within the scope of this redetermination, as the allowed return set at future determinations must reflect prevailing market data and relevant features of the regulatory regime at the time a determination is set.

A1.17 However, we do agree with the sentiment that underpins the request: that predictability of regulatory decision making is important, over time and between successive determinations. This underpins the rationale for the development of the UKRN cost of capital guidance, the adoption of a framework for setting the allowed return that draws on long-term data, and a balanced assessment of the evidence in accordance with our statutory duties.

---

<sup>33</sup> Anglian Water, [Response to Disputing Companies' Statements of Case](#), April 2025, p. 20.