

WATER PR24 REDETERMINATION REFERENCES

Approach and prioritisation

28 May 2025



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Introduction

1. Every five years, Ofwat decides how much revenue companies are allowed for providing and improving water and sewerage services. This, in turn, impacts the customer pricing, business and investment decisions of individual companies. Companies that disagree with Ofwat's price control decisions can ask the Competition and Markets Authority (the **CMA**) to reassess and form conclusions on the price control decisions for those companies (known as 'redeterminations').
2. The CMA has been asked to redetermine price controls by five companies: Anglian Water; Northumbrian Water; South East Water; Southern Water; and Wessex Water (together the **Disputing Companies**).¹ While it is open to us to reconsider any aspect of the price control decisions for these companies, in practice we need to focus our work and resources to complete the redeterminations fairly, efficiently and at proportionate cost within the statutory timeframes (which we refer to as our 'overriding objective').
3. Having considered initial submissions and information from the Disputing Companies, Ofwat and third parties (including customer and investor groups), we are publishing this document to explain how we propose to approach the redeterminations, including in particular the issues we intend to prioritise and deprioritise. **We invite views on our proposed approach and prioritisation to inform the focus of our work on the PR24 redeterminations.**
4. The framework for our redeterminations is set out in our procedural rules and guide.² In particular, the guidance sets out our overriding objective to carry out the redeterminations fairly, efficiently and at proportionate cost within the statutory timeframes.³
5. The main parties in these redeterminations are Ofwat and the five Disputing Companies. The five Disputing Companies have rejected Ofwat's determinations and have provided extensive and differing reasons for doing so. Given the nature and scale of the work involved in these five redeterminations and the associated procedural complexity, and the time we have available in which to carry out our redeterminations, we intend to adopt a proportionate approach to the prioritisation of issues.⁴

¹ Anglian Water Services Limited (**Anglian**), Northumbrian Water Limited (**Northumbrian**), South East Water Limited (**South East**), Southern Water Services Limited (**Southern**) and Wessex Water Services Limited (**Wessex**).

² See [New rules and guidance for water references \(10 December 2024\)](#).

³ [Competition and Markets Authority Water Reference Rules \(CMA204\), December 2024](#), (**Rules**) Rule 4.1.

⁴ [Competition and Markets Authority Water Reference Guide \(CMA205\), December 2024](#), (**Guide**) paragraphs 3.13–3.16.

6. In our Guide, paragraphs 3.13 to 3.16, we set out the CMA's approach to the prioritisation and deprioritisation of issues in water redetermination references.⁵ In particular, we have been mindful of whether in respect to specific issues:
- (a) any concerns have been raised by any main or third party;
 - (b) we have identified any potential concerns, for instance in Ofwat's approach;
 - (c) there is any impact on other parts of the redeterminations; and/or
 - (d) there is a significant scale of impact on current and/or future customer bills and/or other outcomes, including but not limited to service quality and resilience.
7. In doing so, we have been mindful of the degree to which there are points of principle common across the Disputing Companies.

Invitation to submit views

8. We welcome submissions from main and third parties, including from those representing customers' interests, on our proposed approach. Submissions are most useful when they are supported by evidence.
9. We invite views in particular on:
- (a) whether we have prioritised appropriately; and
 - (b) other aspects of our approach, including:
 - (i) our proposal to explore a data-driven approach to variable selection using econometric tools for base cost modelling (ie to use modelling techniques to review which inputs should be included in the models) (see paragraphs 43 to 44);
 - (ii) the treatment of new evidence, data and information, including data cut-offs (see paragraphs 83 and 95 to 98 below); and
 - (iii) the treatment of certain issues raised by several parties as common issues (paragraphs 27 to 28).
10. For the avoidance of doubt, we do not require restatement of arguments or evidence covered in the substantial volume of submissions already provided to us.

⁵ See footnote 4 above.

11. To submit views on our proposed approach and prioritisation, please email WaterPR24References@cma.gov.uk. To support your views, please provide either supporting evidence or refer to where you have provided it within previous submissions. **All interested parties are requested to make any submissions in response to this document by 12:00 midday on Wednesday 11 June 2025.**
12. The CMA may publish non-sensitive submissions on the CMA's website. Where you believe that information contained within a submission is sensitive information which should not be disclosed, you should provide:
 - (a) a version with sensitive information clearly highlighted;
 - (b) a non-sensitive version with any sensitive information redacted; and
 - (c) a table setting out your reasons for treating each item or category of information as sensitive information.

Next steps

13. Our administrative timetable has been published on our [case page](#).⁶
14. We will consider responses to this document to assist us in shaping our prioritisation and approach. As noted above, we welcome views from main and third parties, including those representing customers' interests.
15. We will hold a series of hearings over three weeks in late June and early July, during which we will hear further from the main parties and the Consumer Council for Water (**CCW**) and ask questions to inform our provisional conclusions.
16. We expect to publish our provisional conclusions in mid-September 2025 in our provisional determinations report.⁷ The main purpose of publishing a provisional determinations report is to enable the Disputing Companies, Ofwat and third parties to comment on our reasoning and accuracy of arguments. This will be the primary means of seeking views on our provisional redeterminations.
17. We will consider responses to the provisional determinations before issuing our final report. We must issue the final report before 17 March 2026, although we will seek to issue it by mid-December 2025 if possible, having regard to our duties under the Water Industry Act 1991 and the overriding objective.⁸ While we are not proposing to deprioritise issues in order to meet the December target (as opposed

⁶ Having requested, and been granted by Ofwat, an extension of the statutory deadline to 12 months.

⁷ Rules ([CMA204](#)), Rule 11, and Guide ([CMA205](#)), paragraphs 4.16–4.17.

⁸ In the light of timetable representations made by Ofwat and the Disputing Companies regarding the desirability for the redetermination being completed in mid-December 2025 to allow for any changes to the price control to be reflected in customer bills of 2026/27 and therefore enabling the Disputing Companies to spread any changes in revenue allowed over the PR24 charge control period across 4 rather than 3 years of bills.

to the March statutory deadline) our current view is that taking into account the scope of issues we plan to prioritise and deprioritise set out in this document, mid-December is an appropriate target for the final report. We will publish a summary of the final report when it is issued and publish a non-sensitive version of the full report a few weeks later.

Background

18. We last carried out water redeterminations for four companies in 2019-20, during the first year of the COVID-19 pandemic. The wider context has since changed considerably.
19. These redeterminations are taking place during a period of extensive debate and potential change for the water sector and how it is regulated. It has been widely recognised that there are significant challenges from climate change, population growth, the crisis in nature and the need to deliver economic growth. This combines with the material increase in market interest rates compared with recent price reviews. Significant investment is needed to meet these challenges, placing pressure on water company resilience and affordability for customers. In light of this, the future regulatory structure for water has been/is under review by a number of bodies including in particular the Independent Commission on the Water Sector Regulatory System (**Independent Water Commission**), chaired by Sir Jon Cunliffe.⁹ The aim is for the recommendations of the Independent Water Commission review to inform a longer-term reset of the sector, with possible implications for later price controls – not PR24. Our redeterminations take place within the existing regulatory framework and apply to the current five-year period from 2025-2030.
20. The five Disputing Companies serve over 7 million household and business customers and have a combined annual revenue of around £4 billion.¹⁰ The redeterminations are highly complex and involve reassessing decisions that took Ofwat more than four years to reach. Ofwat drew on a wide range of expertise, including financial, economic and engineering expertise and consulted extensively before reaching its PR24 Final Determinations (December 2024) (**PR24 FD**). While we have appointed engineering advisers to assist us, it is not possible for us to replicate the full extent of Ofwat's exercise in the redetermination process.
21. Given the importance of the outcome of the redeterminations for key issues such as customer bills and infrastructure investment, our aim is to reach a decision as

⁹ [Independent Commission on the Water Sector Regulatory System: Terms of reference](#); National Audit Office report on [Regulating for investment and outcomes in the water sector](#), 25 April 2025; and the Dan Corry review [Delivering economic growth and nature recovery: and independent review of Defra's regulatory landscape](#), 2 April 2025.

¹⁰ Companies often refer to a population number for their area as opposed to the number of paying customers (ie households and businesses). The Disputing Companies serve 27% of customers (household and business) and account for 29% of revenue in England and Wales.

promptly as possible, in line with our overriding objective of conducting the redeterminations fairly, efficiently and at proportionate cost within the statutory timeframe.

22. Where, at the request of a Disputing Company, Ofwat makes a reference to the CMA, the CMA must decide the matter on its own merits in accordance with the principles that apply to Ofwat including various statutory duties (see the Appendix).¹¹ We will undertake the redeterminations in accordance with these principles, but we may make different judgements from Ofwat on how they should be interpreted and balanced.
23. The Disputing Companies have provided their statements of case (**SoCs**) and Ofwat has provided its responses.¹² We have also sought submissions from third parties on the issues raised in the Ofwat references and the Disputing Companies' SoCs, and any other issues that we should consider as part of our redeterminations. We received submissions from a variety of third parties, including customer representative bodies, environmental protection groups, other water companies, investors, and environmental and business representative bodies. These submissions are published on the [CMA case page](#).
24. We have so far received more than 70 submissions totalling over 3,000 pages (around 20 from the Disputing Companies, more than 10 from Ofwat and around 40 from third parties) appended to which were over 2,000 supporting documents. In addition we have received more than 10 responses so far to our detailed requests for information.

Issues and approach

25. We set out below the approach we have taken to identifying and prioritising the issues that we propose to address and the proposed depth of analysis.

Fairly, efficiently, at proportionate cost within the statutory timetable

26. We have taken the Disputing Companies' SoCs, Ofwat's responses and third party submissions as our starting point. The SoCs tend to outline general objections and issues of principle with the price control framework, before setting out specific requests to remedy particular issues in the redeterminations.
27. Mindful of our overriding objective to carry out the redeterminations fairly, efficiently and at proportionate cost within the statutory timeframe.¹³

¹¹ Guide ([CMA205](#)), paragraph 2.2, and Water Industry Act 1991, section 12(3).

¹² In addition to these, Disputing Companies have provided submissions on each other's SoCs, and replies to Ofwat's responses. Ofwat has also provided a short response to the Disputing Companies' submissions on each other's SoCs.

¹³ Rules ([CMA204](#)), Rule 4.

- (a) we will focus our attention on the specific issues raised by Disputing Companies within the SoCs. We intend only to consider more general objections raised by the Disputing Companies to the extent that an understanding of these is needed to come to a view on the specific requests;
 - (b) we will consider specific issues raised by Ofwat and third parties in response to the SoCs so our consideration is balanced, taking account of customers' interests;
 - (c) we will treat some matters raised by several main and third parties on issues of principle as common issues, on which we will hold joint hearings with the Disputing Companies and Ofwat and require joint submissions from the Disputing Companies; and
 - (d) we do not intend to re-open points that are unchallenged unless we consider doing so is necessary to come to a view on the specific requests.
28. While looking at groups of issues and common issues, we are conscious of the interlinkages and interdependencies arising between them. In addition, our decisions on issues raised, unless the issue is a solely company-specific matter, may have relevance for the redeterminations for the other Disputing Companies. It is not within the CMA's powers to make changes for those water companies who have accepted Ofwat's determinations. To the extent that our redeterminations change the position for the Disputing Companies on issues common across the sector, for example on allowed return, such changes would not apply to non-Disputing Companies.
29. When making each of our redeterminations, we need to consider the issues we prioritise in context, having regard to whether the overall package provides the best approach to fulfilling our duties in the redeterminations.

Approach to prioritising

30. We are mindful of Disputing Companies' incentives to selectively raise areas where the price control settlement might be unfavourable to them. Our consideration of the price controls is not driven solely by the issues raised by the main parties (although this is a key part of the evidence we will consider). We will

also consider¹⁴ issues raised and evidence provided by Ofwat and third parties.¹⁵ (see the Guide, paragraph 3.14.)

31. We will adopt a fair and proportionate approach to assessing the issues raised with us. For example, for a particular issue, we could decide to increase or reduce Disputing Companies' funding and we will consider whether changes in approach should be applied consistently across Disputing Companies, noting that consistent implementation of certain changes could have results that are unfavourable to some or all of the Disputing Companies. We will also consider aspects of the determinations which Ofwat has raised with us as potentially favourable to the Disputing Companies and we will have regard to the wider context of Ofwat's decisions.
32. We propose to use the same regulatory building blocks as Ofwat used in its determinations. However, we do not exclude the possibility of revisions to Ofwat's approaches and methodologies, including consideration of whether approaches may be modified, simplified, or any aspects of the price controls removed or supplemented. We are mindful of the extensive consultation that Ofwat carried out on aspects of its approaches and will consider this context in deciding whether to make changes.
33. Using the considerations set out in the Guide¹⁶ and our overriding objective, we propose to deprioritise a number of issues, and thus not conduct further work on them. We outline these in the sections below.
34. We do not intend to focus on issues raised with us where:
 - (a) the issue has an insignificant impact on customer bills or other outcomes.¹⁷ A factor in this is where the value of the issue would be 0.5% or less of the relevant PR24 total expenditure (**totex**) allowance permitted to a Disputing Company in Ofwat's determination (**de minimis**).¹⁸ In doing so, we are mindful of the information asymmetry between us and the Disputing Companies and the incentive for Disputing Companies to selectively raise issues for redetermination;

¹⁴ Guide (CMA205), December 2024, paragraph 3.14.

¹⁵ The third party submissions we have received so far have primarily addressed issues which have already been raised by the main parties. We note that CCW has raised issues regarding increasing affordability support and requested changes be made to Ofwat's C-MeX measures (which measure customer experience).

¹⁶ Guide (CMA205), December 2024, paragraph 3.14.

¹⁷ Guide (CMA205), December 2024, paragraph 3.14(d).

¹⁸ Where the costs relate to only water or wastewater, as in the case of enhancement, we have used water or wastewater total totex allowance as the denominator; where the costs relate to water and wastewater, for example business rates, we have used water plus wastewater total totex allowance as the denominator.

- (b) we expect the issue to be addressed in a reasonable period through alternative means, for example through a process that Ofwat already has in place or is developing (**alternative route**);
 - (c) the issue reflects a well-established regulatory practice and we have not received compelling evidence to suggest we should revisit this in the context of this redetermination process. Consideration of more fundamental changes to the regulatory framework are best addressed through industry-wide policy work, outside of these redeterminations (**well-established practice**); or
 - (d) the issue would require a disproportionate amount of work to resolve in the context of this redetermination process when set against the potential impact (**disproportionate**).
35. This document sets out our current thinking about issues that are deprioritised on these bases. We will keep this under review, having regard to submissions and developments throughout the redeterminations.
36. To the extent that errors have been made in Ofwat's PR24 FD that are agreed by Ofwat and the Disputing Company and are straightforward for us to correct eg when updating modelling or calculations necessary to reach our redeterminations, we will correct them. This might result in increases or decreases in revenue allowed to Disputing Companies.
37. To the extent that any claims have been made by Disputing Companies which were not raised during the more than four-year Ofwat PR24 process, we will need to understand why this is the case, including whether such claims may be speculative or opportunistic. We are also mindful that there are risks of determining new issues without the time to consult extensively as Ofwat was able to during the PR24 process. Where we are persuaded that there is a good reason for a claim not having been raised during the PR24 process, and it is not deprioritised in accordance with the filters set out above (paragraph 34), we propose to assess it as part of the redeterminations.
38. In making our redeterminations, we are mindful of the already substantial bill increases that customers are facing to pay for legally required drinking and wastewater quality, environmental and climate change resilience improvements. Ofwat's PR24 FD states that nearly 90% of investment, which is four times higher than at PR19, reflects legal requirements.¹⁹ Throughout our assessment we will consider the potential impact of any changes to the Disputing Companies' allowed revenue on bills, in particular by promoting efficiency and avoiding customers

¹⁹ Ofwat (2025) [PR24 final determinations: sector summary](#), page 9.

‘paying twice’ for outcomes that have not been delivered in prior charge control periods.

39. Although we have received some representations on social tariffs from parties, the setting of social tariffs is not within CMA’s powers to determine. Defra sets the framework for customers in a vulnerable position to be protected by the establishment of social tariffs.²⁰ The framework envisages that these are paid for by those customers in a vulnerable position paying less and other customers paying more. Some companies’ shareholders opt to contribute such that the social tariff subsidies are, in part or in whole, funded by the shareholders as opposed to other customers. We also note the 2019 non-statutory Water UK pledge to make bills affordable by 2030.²¹

Base costs

40. Base costs are routine, year-on-year costs, which companies incur in the normal running of the business to provide a base level of service to customers and maintain the long-term capability of assets. This covers both wholesale and retail activities.²² Within this area we propose to address the issues raised as follows.

Econometric benchmarking

41. Ofwat has recommended that we deprioritise base cost modelling. Given that modelled costs represent the bulk of base costs, and that some of the issues raised by Disputing Companies appear to be supported by substantial arguments and evidence, we do not intend to deprioritise base cost modelling. However, given the complexity of this area and the substantial amount of work conducted in PR24 to develop these models, we intend to follow a focused and proportionate approach.
42. The specific requests made by Disputing Companies about base modelled costs broadly fall into four categories.
43. First, South East and Southern have asked us to **reconsider the set of explanatory variables used in these models**. We plan to explore a data-driven approach to variable selection using econometric tools such as LASSO (Least Absolute Shrinkage and Selection Operator). Starting with a set of potential explanatory variables that have economic and engineering rationale, LASSO selects the set of explanatory variables that best predict the outcome variable of interest (in this case, base costs). LASSO tends to drop variables that have low

²⁰ Defra (2012) [Social Tariffs Guidance](#) and [The Water Industry \(Charges\) \(Vulnerable Groups\) \(Consolidation\) Regulations 2015](#).

²¹ Which Water UK defines as ‘affordable for all households who spend more than 5% of their disposable income on water and sewerage bills’. See <https://www.water.org.uk/sites/default/files/wp/2019/04/Public-Interest-Commitment.pdf>

²² Ofwat (2025) [Expenditure allowances](#), page 18.

explanatory power, or that are highly correlated with other variables that have explanatory power. This approach may be well suited to the assessment of the disputed points, insofar as much of the debate between Ofwat and the Disputing Companies revolves around the degree of correlation between potential explanatory variables, and which set of variables can best predict costs given the limited number of observations. Depending on the robustness of the results and the extent to which they differ from Ofwat's, we may use the results to inform our assessment of the claims submitted by the Disputing Companies and our decisions on whether to revise allowances.

44. Second, **several issues relating to cost adjustment claims are relevant to the modelling**. These include Southern's coastal population, regional wages and energy cost adjustment claims, alongside South East's economies of scale in wastewater treatment services claim and Anglian's leakage cost adjustment claim. For these we plan to assess a) if the claim is valid and if so then b) the extent to which they can be resolved via edits to the models in conjunction with the results of our work on econometric benchmarking set out in paragraph 43. If that is not possible, but we find there is still merit in the claim, we will evaluate these as they have been put forward by the Disputing Companies: as individual cost adjustments.
45. Third, South East has asked us to **acknowledge the limited reliability of these models and reflect this in our decisions**. Where relevant, we will consider the reliability of models, for example in our consideration of the catch-up efficiency challenge, frontier shift and/or Performance Commitment Levels.
46. Finally, Wessex asked us to **set aside the results of the models and set its base costs based on the 'bottom-up' evidence** submitted in the Wessex business plan. We plan to deprioritise this request as the use of econometric benchmarking is a well-established practice. We acknowledge that all econometric models are imperfect, and that it is not possible to establish with certainty that they incorporate every single determinant of costs. However, these models contain important information about the relative performance of companies and are the most important means by which Ofwat and we can mitigate the asymmetry of information that exists between regulators and the companies. We also note that Ofwat's process leaves room for companies to submit focused cost adjustment claims to capture the impact of specific factors not included in the models. Against that backdrop, setting aside the entirety of the modelling results and using Wessex's evidence does not appear to be consistent with our duty to protect the interest of consumers.

Sector-wide cost adjustment claims involving mains renewal, meter replacement and network reinforcement

47. We will evaluate these claims, including Ofwat's approach to retrospective adjustments. We recognise that our decisions on these claims could have impacts on all the Disputing Companies.

Disputing Company-specific cost adjustment claims

48. We will evaluate the following claims:
- (a) an Anglian claim for £150 million for storage points and gravity sewers;
 - (b) Anglian and Southern claims relating to boundary boxes;
 - (c) a Northumbrian claim for £180 million for civil structures and service reservoirs;
 - (d) a Northumbrian claim for £47 million for climate change adaption;
 - (e) a Southern claim for £101 million for sludge treatment centres; and
 - (f) Wessex claims for £178 million for bioresources and £47 million for disinfection at water treatment centres, unless we consider, following consultation with Ofwat and Wessex, that these claims are expected to be addressed by Ofwat through an alternative route.

Other claims involving asset health

49. We plan to deprioritise the issues raised by Disputing Companies relating to asset health which are not covered in paragraphs 47 and 48.
- (a) First, consideration of more fundamental changes to the regulatory framework are best addressed through industry-wide policy work, outside of these redeterminations.
 - (b) Second, following the CMA's suggestion in its PR19 redeterminations and wider recognition of this issue, Ofwat has accepted the need to incorporate a 'forward-looking' element when setting base cost allowances.²³ While Ofwat is reviewing its approach to asset health, it told us that the complexities involved meant it was unable to install a

²³ CMA (2021) [Anglian Water Services Limited, Bristol Water plc, Northumbrian Water Limited and Yorkshire Water Services Limited price determinations Final Report](#), paragraph 4.293; National Infrastructure Commission (2024) [Developing resilience standards in UK infrastructure](#), page 9; and Ofwat (2025) [Expenditure allowances – addressing asset health](#), paragraphs 2.7 and 2.9.

comprehensive solution prior to PR24.²⁴ Ofwat's approach may also provide additional allowances to companies within this price control period (AMP8)²⁵ and subsequent AMPs.²⁶ Ofwat's review provides an alternative route to address the issues raised by the Disputing Companies.

Frontier shift

50. Ofwat defines frontier shift as the rate of efficiency improvements that even the most efficient companies in the industry can achieve, from improvements in working practices and the introduction of new technology.
51. We will evaluate the approach used to set the frontier shift and the evidence submitted by Ofwat, the Disputing Companies and third parties.²⁷ We will also consider to which areas of costs the frontier shift should be applied.

Other base costs issues

52. We plan to deprioritise as disproportionate the request from Anglian and Southern that we use latest average bill forecasts to set residential retail base expenditure allowances. The methodology that Ofwat has applied is unchallenged and the necessary verified, robust sector-wide data is not currently available for all companies. The necessary data collection and verification exercise would be onerous, time consuming and not fully under our control. We would need all water and wastewater companies, not only the Disputing Companies, to submit data. It would also require us to assess all water and wastewater companies' forecast bills, cross check these against business plan figures and rely on water companies responding promptly to our requests for clarifications. Finally, we would need to update models we would not otherwise be changing. In addition, the evidence we have received to date indicates that this request is likely to be de minimis.
53. We plan to deprioritise as de minimis the claims relating to business rates, National Insurance changes, Ofwat's licence fee, and the Environment Agency (EA) levy. Each claim accounts for 0.5% or less of water plus wastewater total totex allowance and none raises substantial wider issues of principle.

²⁴ Ofwat (2024) [PR24 final determinations Roadmap for enhancing asset health understanding in the water sector](#), Section 2, and , Ofwat (2025) [PR24 redeterminations Expenditure allowances – addressing asset health](#), paragraphs 2.12 to 2.17.

²⁵ Ofwat's PR24 FD covers the five-year period from 2025 to 2050, also known as Asset Management Period 8 (AMP8).

²⁶ Ofwat (2024) [PR24 final determinations Expenditure allowances](#), page 93.

²⁷ Ofwat (2025) [Expenditure allowances – common issues](#) page 186.

Enhancement costs

- 54. Enhancement cost allowances provide for expenditure required to serve new customers through population growth and/or to meet new service levels and comply with new legal requirements specified in Water Resource Management Plans (WRMPs) and water quality standards required by the Drinking Water Inspectorate (DWI), EA and Natural Resources Wales.
- 55. In the case of enhancement costs, the concerns raised by the Disputing Companies largely relate to Ofwat's use of benchmarking models and 'deep dive' reviews of requested allowance claims in determining allowances. In addition, the Disputing Companies have asked us to update certain allowances to take account of new information and to make changes to the delivery mechanism, the large scheme gated process and other adjustment arrangements.

Benchmarking models

- 56. The Disputing Companies have raised specific concerns in relation to the performance of Ofwat's phosphorus removal, water supply interconnector and bioresources industrial emissions directive (IED) costs models.
- 57. We will consider whether these models provide a reliable basis for setting the relevant cost allowances.
- 58. If we consider that the concerns raised are valid, we will consider making changes to the specification of the relevant models and/or benchmarking approach. If we find that there are changes that can be made that would remedy the concerns raised, we would expect to update the models and calculate revised allowances for all Disputing Companies. If we are unable to improve the models or benchmarking approach, we will consider carrying out a company-specific assessment of the relevant enhancement cost claims as set out in paragraph 65 below.
- 59. In addition, Northumbrian claims that Ofwat made unambiguous errors in several models (eg in the CA55 Storm overflows model). Ofwat agrees that these are errors. It has itself corrected some and asked the CMA to update the allowances accordingly in the redeterminations. As set out in paragraph 36 above, we intend to fix the errors and update the allowances within the models.

Individual assessment allowances (shallow and deep dives)

- 60. The Disputing Companies have raised concerns in relation to over 30 bespoke or individual assessments carried out by Ofwat in setting allowances to fund investment in wastewater monitoring, water supply, water quality, security and resilience, and environmental schemes. Some of these concerns relate to Ofwat

adjusting or disallowing funding for leakage reduction, water resilience, water supply and wastewater schemes on the grounds that funding is provided through base allowances or was provided in previous periods (ie customers are not ‘paying twice’).

61. The Disputing Companies have also asked us to carry out individual assessments where disputing Ofwat’s use of benchmarking in the determination of enhancement allowances and in considering a new claim for funding enhancement investment.
62. Ofwat has recommended that we deprioritise the redetermination of expenditure allowances associated with perfluoroalkyl and polyfluoroalkyl substances (**PFAS**), cyber security, the large schemes gated process and major project development costs on the basis that it already has mechanisms or ongoing processes to address these concerns.²⁸
63. We intend to deprioritise the following requests on the basis of there being an alternative route, as we expect Ofwat to address these issues within the PR24 period through existing mechanisms:
 - (a) Northumbrian’s request for £4 million to fund preparatory work on the Bacton desalination bulk supply pipeline. Ofwat has said that this scheme should be progressed through PR29 or alternative funding mechanisms closer to the required lead-in time and that it could be incorporated into the RAPID gated scheme process;²⁹
 - (b) Northumbrian’s request to delay spend on the Suffolk Strategic Network scheme from AMP8 to AMP9. Ofwat has said that it could manage scheme delays and costs through the large scheme gated process; and
 - (c) South East’s request for £9 million to fund to six PFAS raw water deterioration schemes. Ofwat has said that it could incorporate these schemes into the PFAS uncertainty mechanism.
64. In addition, we intend to deprioritise the following claims for additional funding on de minimis grounds (and none raises substantial wider issues of principle):³⁰
 - (a) Southern’s for Monitoring Certification Scheme (MCERTS) Flow monitoring at sewage treatment works;

²⁸ Ofwat (2025) [Overview of our response to the SoCs](#), paragraph 5.2, and Ofwat (2025) [Response to Northumbrian’s SoC](#), table 4.5.

²⁹ We note that this request might also be deprioritised on de minimis grounds.

³⁰ We calculated the value of each relevant issue as a percentage of the Disputing Company’s PR24 water totex or wastewater totex, as appropriate, depending on whether the spend related to water or wastewater activities. Each issue accounts for 0.5% or less of the Disputing Company’s PR24 water totex or wastewater totex.

- (b) Southern's for Water industry national environment programme (WINEP) Water and Wastewater projects;
 - (c) South East's for its drinking water protected areas programme;
 - (d) South East's for the SRN River Medway water treatment works upgrade;
 - (e) South East's for a cyber security scheme; and
 - (f) South East's for a Security and Emergency Measures Direction (SEMD) project.
65. For all other claims raised by the Disputing Companies relating to individual assessments, we intend to focus on the arguments and supporting evidence submitted by each Disputing Company in its SoC and Ofwat and third party responses to these. We plan to adopt the same approach as used by Ofwat in its PR24 FD to assess the case for funding. In particular, as required, we will consider the strength of the evidence on the need for the investment, the best option for customers, cost efficiency and measures taken to protect customers. In assessing detailed engineering evidence, we will use our appointed engineering advisers, Water Research Centre, to support our assessments.
66. We note that all these individual assessments were company specific (ie based on the evidence provided by the relevant company in support of its claims). This means that any adjustments we decide to make in response to concerns raised by a Disputing Company would be unlikely to result in adjustments being made to other Disputing Company cost allowances.

Other enhancement costs issues

67. The Disputing Companies have also raised concerns in relation to Ofwat's use of uncertainty and adjustment mechanisms in the determination of enhancement cost allowances. These concerns are wide-ranging, including criticisms of the design of some mechanisms and requests for allocating more schemes to these mechanisms. As above, in considering these claims we will focus on the arguments and supporting evidence submitted by the Disputing Companies in their SoCs, Ofwat's response and third party submissions.

Outcomes

68. Under the outcomes framework, a range of performance commitments and associated outcome delivery incentives (**ODIs**) are put in place to encourage the delivery of objectives that matter to customers and the environment. Also, price control deliverables (**PCDs**) set out a range of key outcomes or outputs that

expenditure allowances are intended to fund. Within these areas we propose to address the following issues.

Outcome delivery incentives

69. The Disputing Companies have raised issues with the ODI framework in two ways:
- (a) they have asked us to consider the implications of the ODI framework for the overall balance of risk and return, and – in relation to that – the role played by the Aggregate Sharing Mechanisms (**ASM**) and the Outturn Adjustment Mechanism (**OAM**) (which can dampen the companies' exposure to rewards and penalties under the ODI framework when performance levels turn out to be very different from those Ofwat had assumed in its PR24 FD); and
 - (b) three of the Disputing Companies have asked us to consider some specific ways in which the ODI framework has been calibrated, in terms of the setting of Performance Commitment Levels (**PCLs**), ODI rates, and risk protections.
70. The implications for the overall balance of risk and return are considered in the risk and return section below. In terms of the specific ways in which the ODI framework has been calibrated:
- (a) Anglian has asked us to consider the calibration of four ODIs: Total Pollution Incidents; Water Supply Interruptions; Leakage; and External Sewer Flooding. For Total Pollution Incidents, Anglian has asked us to reconsider the PCLs and ODI rates that have been set, and the extent to which different types of pollution incident might affect measured performance. For the other three ODIs, Anglian has asked us to reconsider the PCLs that have been set;
 - (b) South East has asked us to reconsider the calibration of two ODIs: Water Supply Interruptions; and C-MeX (a customer experience measure). For Water Supply Interruptions, it has asked us to reconsider the PCL and the collar (ie the upper limit) that has been put on the level of penalties that could be triggered. For C-MeX, it has asked us to reconsider the account that is taken of regional factors. It has also asked us to reconsider the application of a penalty under a PR19 ODI associated with non-household void properties; and
 - (c) Southern has asked us to reconsider the calibration of 12 ODIs: Total Pollution Incidents; Water Supply Interruptions; Leakage; C-MeX; D-MeX (Developer services measures of experience); BR-MeX (Business Retailer measures of experience; Water Quality Contacts; Compliance

Risk Index; Discharge Permit Compliance; Serious Pollution Incidents; Storm Overflows; and Bathing Water Quality. It has asked us to reconsider the PCL on 4 of those, the ODI rate on 6, and risk protections (including the collar on penalties) on 7 ODIs.

71. We will look at each of the specific ODI issues that has been raised by the Disputing Companies in a proportionate manner, recognising that the Disputing Companies may benefit from the approaches Ofwat took to other parts of the ODI package that have not been challenged. We propose to take account of our broader consideration of the balance of risk issues described below when considering the case for specific ODI changes.

Price control deliverables

72. The Disputing Companies have asked us to reconsider non-delivery PCDs and the time incentive PCDs. Non-delivery PCDs allow for the claw-back of funding when specified outputs/outcomes have not been delivered. Time incentive PCDs provide for rewards and penalties aimed at encouraging timely delivery of specified outputs/outcomes. The Disputing Companies have identified concerns over:
- (a) the scope for a lack of PCD flexibility to exacerbate delivery risks and negatively impact on incentives (including potentially for the use of nature-based solutions);
 - (b) the potential for PCDs to result in an expected negative return, in part because of the risk that companies may have to return funds related to work on a project that had been commenced but not concluded within a given time period;
 - (c) the risk of PCDs giving rise to overlapping penalties; and
 - (d) the scope for unnecessary administrative and regulatory burdens to be generated.
73. The Disputing Companies have also raised specific concerns with respect to the ways in which the following PCDs have been specified: mains replacement, metering, lead, cyber (Network Information Systems), storm overflows, and phosphorus removal PCDs; and the time incentive PCDs.
74. We propose to look at each of the issues raised by the Disputing Companies in the light of the objectives that the PCDs are intended to help address.

Risk and return

75. A key building block within the price control is the allowed return, which needs to be set at a level to ensure that debt and equity investors are appropriately

compensated for the risks of providing funds to the industry. The allowed rate of return is set with reference to a weighted average cost of capital (**WACC**). The cost of equity component of the WACC reflects returns required by equity investors, while the cost of debt component compensates for efficiently incurred costs of existing and new debt.

76. In its PR24 FD, Ofwat also considered the overall balance of risk and return and sought to calibrate the package so that equity investors in an efficient (notional) company had a reasonable prospect of earning the base allowed return on equity. Actual returns may vary from the base return during the price control, as cost and service levels may deviate from forecast levels.

Allowed return

77. All five Disputing Companies have asked us to consider the allowed return afresh (either in its entirety or some components of it). We have also received third party representations raising issues with the level of the allowed return, including from customer organisations and investors.
78. We intend to carry out an independent assessment of the WACC, taking into account the issues raised by various parties. We will also consider the company-specific issues raised on cost of debt.
79. We do not propose to deprioritise any of the parameters, given the interlinkages between them and the need to ensure the allowed return as a whole is appropriate. However, we will be mindful of the relative materiality and strength of disagreement in various areas, to ensure our approach is proportionate and efficient.
80. Our chosen approach to estimating each WACC parameter will not be constrained by the approaches proposed by the parties. However, we are mindful that key methodologies around most parameters are relatively well-established, and it is generally accepted as desirable to have a predictable and consistent approach to estimating the WACC in a regulatory context to create a stable environment for long-term investment.
81. For example, for the cost of equity, we intend to continue to use the Capital Asset Pricing Model (**CAPM**) as our primary model, suitably cross-checked against other evidence. Similarly, for the cost of debt, while some of the parties have challenged certain aspects of how Ofwat calibrated the allowance, the overall framework for estimating the costs of embedded and new debt in the water sector is relatively well-established.
82. Our estimates will use up-to-date market and other relevant new data where appropriate, for reasons discussed in more detail in paragraphs 96 to 99 below.

There is however a difference between incorporating new market data (eg on the level of interest rates in the economy) versus assessing new arguments on methodology, and where methodological points are made for the first time in our redeterminations, we will need to understand why they were not raised during the more than four-year Ofwat PR24 process.

83. We intend to apply a cut-off date for market data of 30 June 2025 for our provisional determination and we will similarly apply a suitable cut-off date in advance of our final report to provide sufficient time to quality assure our estimates and consider interactions with the rest of our redeterminations. Our intention for a final report issued in mid-December 2025 (as per our target in the administrative timetable) would be to apply a cut-off of 30 September 2025.

Balance of risk

84. All five Disputing Companies have raised concerns about the overall balance of risk in Ofwat's PR24 FD, arguing that the overall package is skewed to the downside (ie does not offer a reasonable opportunity to earn the base allowed return on equity).
85. The alleged imbalance in the package is largely linked to differences in view on what is achievable and what levels of funding and returns are needed by the notional efficient company. The Disputing Companies' proposed remedies on balance of risk issues largely relate to the underlying building blocks of the price control, ie the totex allowances, the outcomes package, and the allowed return.
86. Therefore, as far as possible we will seek to address arguments on overall balance of risk 'at source', in line with the approach set out in the earlier sections of this document.
87. With regard to the suite of risk mitigation and uncertainty mechanisms within PR24 (which may influence what level of risk investors are exposed to over the price control), we note that the Disputing Companies have only asked us to consider two specific uncertainty mechanisms – the ASM and the OAM.
88. We will therefore assess the appropriateness and the design of the ASM and the OAM as part of our assessment of the overall balance of risk and return. We do not intend to review any of the other uncertainty mechanisms or risk protections within the price control.
89. In particular, when it comes to companies' potential exposure to finance risk, we acknowledge that Ofwat has asked us to think carefully about the treatment of inflation within the price control. We will consider these matters as part of our redeterminations of the allowed return. However, we do not think it would be appropriate for us to consider changing the approach to indexing the Regulatory

Capital Value (**RCV**). Consideration of more fundamental changes to the regulatory framework (such as the approach to RCV indexation) is best addressed through industry-wide policy work, outside of these redeterminations.

Financeability

90. We will assess and ensure that the decisions in our redeterminations are consistent with the financing duty (see Appendix for more details of Ofwat's duties).
91. As part of this assessment, we will consider how best to assess financeability, including issues such as the appropriate target credit rating, the appropriate debt and equity metrics, and any other assumptions necessary for the assessment. We will also consider whether it is appropriate to use any of financeability 'levers', such as PAYG rates or RCV run-off rates as part of this assessment.

Allowances for tax

92. We will recalculate the tax allowances to update for any changes to the price control for each of the Disputing Companies. We note that for all Disputing Companies the tax allowance is a zero contribution to allowed revenues in Ofwat's PR24 FD, given the size of the investment programme and the ability to deduct the full capital expenditure from the taxable revenue.

Retaining unchallenged aspects of Ofwat's PR24 FD

93. There are a number of aspects of Ofwat's PR24 FD which we do not intend to reconsider as they were unchallenged – ie not raised as issues by the Disputing Companies or third parties. For example:
 - (a) Ofwat's business plan quality and ambition assessment;
 - (b) in-period adjustments (such as true-ups or uncertainty mechanisms);
 - (c) PR19 reconciliations; and
 - (d) the methodology relating to retail price controls.
94. Where an issue has not been challenged and we have not explicitly outlined above in this document our intention to prioritise a particular issue, we do not intend to reconsider it (unless we consider that doing so is necessary to come to a view on the specific requests) and will instead apply Ofwat's approach.

Approach to use of new evidence and updated information

95. Where we consider it furthers our overriding objective, we intend to use additional and updated information available, provided in our view that it is complete and robust such that we can place reliance on it.
96. We note that Citizens Advice, CCW and Ofwat have requested that we do not update for more recent data. We understand the rationale that taking account of more recent data than was available to Ofwat risks creating incentives on companies to only challenge Ofwat's determinations where they consider the new data likely to result in a better outcome for their businesses, and potentially undermines Ofwat's business planning process which seeks to address information asymmetry risks. However, we do not consider that the current legal framework for our redeterminations allows us to disregard relevant, available and robust data.³¹
97. We will apply timing 'cut-offs' for the inclusion of new data in order to enable us to quality assure our calculations and complete our analysis ahead of publication of our provisional and final redeterminations (see paragraph 83).
98. We note that Disputing Companies have requested that we use outturn company performance data for the year 2024-25 in our redeterminations, updating from the forecasts used by Ofwat. As the process of 'cleaning' this data to make it robust is expected to take until late August 2025, it would not be feasible for us to use this in a mid-September provisional determination. We will consider whether to update our assessment using this data for the final report.

³¹ The Independent Water Commission is considering the regulatory framework for future controls, taking into account submissions from a wide range of stakeholders including the CMA: [CMA response to the Independent Water Commission's call for evidence](#).

Appendix: Timeline and principles for deciding water PR24 redetermination references

Timeline of water PR24 redetermination references

1. On 19 December 2024, the Water Services Regulation Authority (**Ofwat**) gave notice to Anglian Water Services Limited, Northumbrian Water Limited, South East Water Limited, Southern Water Services Limited and Wessex Water Services Limited (together, the **Disputing Companies**) of a determination under Condition B of the Appointments of the Price Controls for the period from 1 April 2025 (**PR24**).
2. By the deadline of 18 February 2025 and, as provided for by Part V of Condition B of their Appointments, the five Disputing Companies had disputed their respective determinations and required Ofwat to refer them to the Competition and Markets Authority (**CMA**).
3. On 18 March 2025, Ofwat, as required by section 12(3)(a) of the Water Industry Act 1991 (the **Act**) and the Appointments, referred these five disputed determinations to the CMA (the **References**). The CMA was required to report on and redetermine the disputed determinations within a period of six months from 18 March 2025.
4. On 1 April 2025, following a request from the CMA, Ofwat decided that, given the nature and scale of the work involved in five water industry price control references and the associated procedural complexity, there are special reasons why the reports cannot be made within the period specified in the References, and so extended the period specified in the References by six months. The CMA therefore has a period of twelve months beginning with the date of the References to report on and determine the disputed determinations, with the statutory deadline being 17 March 2026.

Principles for deciding water references

5. As noted in paragraph 22 above, where a reference is made to the CMA by Ofwat (on request of a Disputing Company), the CMA is to decide the matter on its own merits in accordance with the principles that apply to Ofwat that include various statutory duties.³²
6. Ofwat's general statutory duties are split into primary and secondary duties. In the text below we refer to 'water companies' as a shorthand. The relevant paragraphs

³² The Act, section 12(3) and the Guide ([CMA205](#)), paragraph 2.2.

of our Rules (CMA204) and Guide (CMA205) are specified in footnotes for ease of reference.

7. The primary duties set out in section 2(2A) of the Act require Ofwat to perform the specified powers and duties in the manner in which it considers is best to:
- (a) further the consumer objective, which is to protect the interests of consumers, wherever appropriate by promoting effective competition between persons engaged in, or in commercial activities connected with, the provision of water and sewerage services (consumer objective);
 - (b) secure that the functions of water companies are properly carried out as respects every area of England and Wales (functions duty);³³
 - (c) secure that water companies are able (in particular, by securing reasonable returns on their capital) to finance the proper carrying out of those functions (financing duty);³⁴
 - (d) secure that the activities authorised by licence of a water supply licensee or sewerage licensee (retailers in the business retail market) and any statutory functions imposed on it in consequence of the licence are properly carried out (licence duty); and
 - (e) further the resilience objective. The resilience objective is: (a) to secure the long-term resilience of water companies' supply and sewerage systems as regards environmental pressures, population growth and changes in consumer behaviour; and (b) to secure that undertakers take steps for the purpose of enabling them to meet, in the long term, the need for the supply of water and the provision of sewerage services to consumers, including by promoting: (i) appropriate long-term planning and investment by relevant undertakers; and (ii) the taking by them of a range of measures to manage water resources in sustainable ways, and to increase efficiency in the use of water and reduce demand for water so as to reduce pressure on water resources.³⁵
8. The secondary duties require Ofwat to exercise these primary duties in the manner which it considers is best calculated to:
- (a) promote economy and efficiency on the part of appointed companies holding licences (efficiency duty);

³³ We use 'water companies' here to denote 'a water undertaker and a sewerage undertaker' as referenced in the Guide (CMA205), paragraph 2.4(b).

³⁴ We use 'water companies' here to denote 'appointed companies' as referenced in the Guide (CMA205), paragraph 2.4(c).

³⁵ We use 'water companies' supply and sewerage systems' here to denote 'water undertakers' supply systems and sewerage undertakers' sewerage systems' as referenced in the Guide (CMA205), paragraph 2.4(e).

- (b) secure that no undue preference (including for the relevant body itself) or undue discrimination is shown in the fixing of water or drainage charges;
 - (c) secure that no undue preference (including for itself) is shown and that there is no undue discrimination in the doing by an appointed company of things which relate to the provision of services by itself or another appointed company or things as relate to the provision of services by a water supply or sewerage licensee;
 - (d) secure that consumers are protected as regards benefits that could be secured for them from the proceeds of any disposal of any [appointed] company's protected land;
 - (e) ensure that consumers are protected as regards any activities of an appointed company which are not attributable to the exercise of its functions under the Act, in particular by ensuring that any transactions are carried out at arms-length and that in the exercise of its functions companies maintain and present themselves in a suitable form and manner; and
 - (f) contribute to the achievement of sustainable development (sustainability duty).
9. Ofwat is also subject to the 'Growth Duty' which requires that Ofwat, in the exercise of its regulatory functions, has regard to the desirability of promoting economic growth.³⁶ In carrying out this duty, Ofwat must consider the importance of ensuring that any regulatory action it takes is needed and proportionate.³⁷
10. In exercising its powers and performing all of its duties, Ofwat is required to have regard to the principles of best regulatory practice, including the principles under which regulatory activities should be transparent, accountable, proportionate, consistent and targeted only at cases in which action is needed.³⁸ Ofwat and the water companies also have specific environmental duties in relation to the protection of areas of natural beauty, special environmental interest and historical sites.³⁹

³⁶ [The Economic Growth \(Regulatory Functions\) \(Amendment\) Order 2024](#) amends Schedule 1 of [The Economic Growth \(Regulatory Functions\) Order 2017](#) to list Ofwat as a regulator to which the [Deregulation Act 2015](#), section 108 now applies.

³⁷ The Act, section 108(2).

³⁸ The Act, section 2(4).

³⁹ The Act, sections 3–5.

11. In addition to these statutory duties, Ofwat must also determine price controls in accordance with the Strategic Policy Statement published by the Secretary of State⁴⁰ or Welsh Ministers,⁴¹ which sets out strategic priorities and objectives.
12. We will undertake the redeterminations in accordance with these duties and guidance, but we may make different judgements from Ofwat on how they should be interpreted and balanced.

⁴⁰ The Act, section 2A(1)

⁴¹ The Act, section 2B(1).