

1. This document provides Northumbrian Water's reply to Ofwat's response to our Statement of Case (**SoC**). A separate document provides views on common issues across companies including asset health and risk and return and we support the arguments in that reply.
2. In accordance with the CMA Guide, Rules and Process Notes and consistent with the overriding objective, we have attached a limited number of supporting documents where relevant to provide the CMA with access to the underlying source material for the points made, including databooks and a small amount of updated analysis and evidence prepared in reply to specific points raised in Ofwat's Response.

1. OFWAT'S RESPONSE DOES NOT FAITHFULLY REFLECT THE EVIDENCE

3. Ofwat's FD19 had two overarching deficiencies which were corrected to some degree by the CMA's redetermination. First, Ofwat's cost allowances were insufficient to maintain our assets, adapt to climate change and meet the stretching service targets it set us. Second, Ofwat set an allowed return that was below the true cost of capital. Ofwat is making both mistakes again in PR24. This is why we are seeking a redetermination of FD24 – it is not the right long term settlement for our customers.
4. Ofwat's response does not faithfully reflect the full range of evidence. For example:
 - Ofwat claims our financial performance has been strong by using an inappropriate profitability metric – total shareholder return. But this conflates inflation with real shareholder returns to present returns that appear excessive historically and in the future. Using the more established measure of profitability, the Return on Regulated Equity (**RoRE**), it is clear we did not earn the allowed level of return set by the CMA. As one of the best performers in the sector we would have expected to have at least earned this level, but we have not.¹
 - Ofwat has challenged our asset management capabilities seemingly intended to undermine our credibility and support Ofwat's case. These challenges are inconsistent with Ofwat's assessment prior to the start of the CMA process (see Section 3.1). Ofwat further suggests it has asset condition data covering 70% of the asset base which shows that condition is improving, when it knows plainly that it does not (see Section 2 of the Joint Reply).
 - Ofwat relies on outdated and at times inaccurate data. It continues to exclude 2023/24 data in the calculation of 'what base buys' for the mains renewal adjustment;² it now suggests 19 December 2024 as the cut-off date for setting the allowed return rather than using the latest market data;³ and it favours DD24 estimates of business rates rather than the latest and more accurate figures from the Valuation Office (see Section 5).
5. We have consistently presented to the CMA comprehensive, unbiased and current information and encourage the CMA to take the widest and fullest objective review of the evidence in pursuit of the overarching objectives of the appeal.

¹ We anticipate that our annual performance report for 2024/25 (due in July) will show an average RORE over AMP7 of c.4.2%, below the allowed RORE of 4.4% in FD19 (as adjusted by CMA). Base RORE per MFR 23/24 AMP to date. SOC337, also SoC Figure 8.

² Ofwat, PR24 redeterminations, Expenditure Allowances – common issues (April 2025) (**Ofwat Response: Expenditure**), paras. 2.201-2.203.

³ Ofwat, PR24 redeterminations, Overview of our response (April 2025) (**Ofwat Response: Overview**) para. 5.18. At PR19 the CMA adopted a cut-off date of December 2020.

2. WE WILL EXPAND OUR SUPPORT PACKAGE IF REQUIRED TO MAINTAIN AFFORDABILITY

6. BP24 contained a clear commitment to our water affordability target and we have always been transparent in presenting the potential impact of our plans.⁴ Our bills remain the lowest in the sector, with an FD24 increase of £6 per month in the NE and £5 in Essex/Suffolk. Were the CMA to agree to all our proposals bills would increase by an additional 7%. Given the 24% reduction in bills in 2020 this would result in bills having increased by just 8% in real terms since 2019 despite significant additional investment of £1,943 per customer over 2020-25. We have undertaken further work examining the impact of companies' SoCs on affordability for our customers.⁵ Our Board is clear that ***if the CMA redetermination results in increased bills, we will ensure sufficient support is in place to meet our water affordability target.***

3. INVESTMENT CASE FOR CIVIL STRUCTURES AND SERVICE RESERVOIRS

7. Ofwat's Response is the first time it has engaged with the substance of this investment case. Whilst we disagree with its commentary and conclusions, this Reply focuses on key new points which are central to the importance of the redetermination of this issue.

3.1. WE ARE A MATURE AND COMPETENT ASSET MANAGER

8. Ofwat's Response casts doubt on our capabilities and track record as a good asset manager for the very first time. We strongly refute these claims. Contrary to Ofwat's assertions there is strong evidence to demonstrate our capabilities and track record as a good asset manager.⁶
- We achieved ISO 55001 certification⁷ in 2015 and retained it in 2018, 2021 and 2024 following a rigorous and comprehensive independent audit by qualified and accredited auditors.⁸ We are currently one of only 4 out of 16 companies to hold this standard with recertification⁹ and were one of the first to achieve it. Our 2015 audit report provides a contemporaneous view of the compliance of our asset management system and processes at that time with "best industry practice".¹⁰ The 2024 report reflects on the maturity of our asset management and the strength of our strategic and tactical planning.¹¹ Ofwat has itself recognised the relevance of this standard as it is now proposing to introduce a requirement for companies to attain and hold it as a licence condition.¹²
 - Ofwat's Response downplays the 2024 AMMA exercise and challenges its relevance as support for our asset management strength.¹³ However, as is made clear in Ofwat's assessment which scored us across six areas, Ofwat expressly ranked us "1st out of the

⁴ Our target (adopted at PR19) is that no customer should spend more than 5% of their household income on water bills by 2030: SoC para.55. It is consistent with the target subsequently adopted by CCWater: [CCW Independent Review of Water Affordability 2021](#), p.4. See also SOC560. Ofwat acknowledges this in Ofwat Response: Overview, para 4.9 & Table 4.1, Note 30

⁵ An assessment of the impact of the CMA appeal on the affordability of Northumbrian Water's Bills, Frontier Economics, 15 May 2025: [Frontier Economics Report - Affordability](#). See [EFRA Committee Recommendation](#), 4.2.2025.

⁶ Ofwat, PR24 redeterminations, Expenditure allowances – cost adjustment claims (April 2025) (Ofwat Response: CACs) paras. 5.42-5.43. SoC Section 2.4.3.

⁷ ISO 55001 details the criteria necessary for establishing, implementing, maintaining, and improving an asset management system. It builds upon the principles of ISO 55000 by providing specific requirements that organizations need to meet to achieve their asset management objectives effectively and efficiently. See <https://www.iso.org/standard/83054.html>.

⁸ As Ofwat noted in AMMA 2024 the fact that we are one of four water companies to have obtained and retained the ISO 55001 certification is in itself compelling evidence that our processes are aligned with best practice in asset management: AMMA Company Response NWL, SOC502, p.5.

⁹ Ofwat's AMMA company response for NWL (SoC502) provides detail on the scope and rigour of the 2024 exercise worth reviewing.

¹⁰ Lloyd's Register, Stage 2 Assessment report for Northumbrian Water Limited, 2015 (REP005), Assessment outcome, p.3.

¹¹ AFNOR UK Ltd ISO55001 Audit Report for Northumbrian Water, 2024 (REP006) Executive Summary, p.2-3.

¹² Ofwat Operational Resilience Working Group, 1 May 2025 (REP007), p. 20.

¹³ Ofwat Response: CAC, para. 5.42.

16 companies who were scored".¹⁴ Whilst we acknowledge the scope of this exercise was different to the 2021 assessment we found it to be a productive and informative process.¹⁵ Ofwat's current interpretation is difficult to reconcile with its contemporaneous statements, such that the purpose was to "provide one form of insight into current maturity".¹⁶ It is misleading to characterise the exercise as "purely hypothetical". We encourage the CMA to review the assessment Ofwat has provided in SOC502 to form its own view.

- Ofwat does not refer to our 2023 independent AMMA-equivalent assessment by Arup, the same expert advisors it relied upon for the 2021 assessment, which scored us between 'competent' and 'optimising' and significantly outperforming even the leading companies in each category in the 2021 AMMA.¹⁷ It also fails to acknowledge that the 2021 AMMA itself had some material weaknesses.¹⁸

9. Our evidence provides independent corroboration that we have a robust and mature asset management system. We are happy to provide broader information through the RFI process.

3.2. THE NEED FOR THE INVESTMENTS WE PROPOSE IS STRONG

10. For the first time in the PR24 process, Ofwat has challenged the asset condition information that we have used as part of our investment case in 2023. For instance, referring to our scheme-level summaries of inspection reports, Ofwat states that the assessed condition "does not indicate the need for significant investment now" and that "the additional evidence provided by the company indicates that it has not thought through its proposal in sufficient detail."¹⁹
11. Ofwat did not question the need for undertaking significant additional maintenance work on our civil structures at treatment works and service reservoirs during PR24 either at DD24 or FD24 or request further evidence to support our view that this investment is needed now. It raised no queries on this issue. The information provided with our SoC was intended to provide a high-level summary of the detailed internal inspection and survey reports. To be clear, we have full inspection and survey reports for each site covered by our proposed investment programme that records the condition of the assets at the site against a common comparative standard. Our investment case is based on our assessment of the information in these full reports. We have updated the scheme-level summaries to better capture the pre-existing information held in our systems which clarifies the need, root cause and scope of the proposed work.²⁰

3.3. WE HAVE OVERSPENT FUNDING ALLOWANCES AND INVESTED EFFICIENTLY

12. Ofwat has questioned the efficiency of our past capital maintenance expenditure, saying that we should spend what is needed and when it is needed irrespective of the level of price control

¹⁴ SoC para. 81; SoC Appendix 1, Section 4 Figure 10 Row 32; AMMA Company Response NWL, SOC502 – this is Ofwat's contemporaneous description of the 2024 process and its output.

¹⁵ NWL Letter to Ofwat, 28 April 2025 (REP008).

¹⁶ AMMA Company Response NWL, SOC502, p.2.

¹⁷ SoC, para. 80 and Figure 7; BP24 AMMA 2023, SOC075 (see p.5 for conclusions). The Arup report was submitted to Ofwat as part of BP24.

¹⁸ As we highlighted to Ofwat at the time Ofwat did not utilise its formal information gathering powers and the data provided was not subject to specific assurance requirements. Some companies did not even complete the request. See NWL Letter to Ofwat 27 July 2021 (REP009).

¹⁹ Ofwat Response: CACs, paras. 5.11 and 5.14. See SoC, para 312. Had Ofwat expressed concerns on 'need' the information set out in our SoC and this Reply would have been provided sooner.

²⁰ See updated version of SOC010 Aqua PCD Asset Health Civil Structures Scheme List Updated 23 May 2025.

allowances. Ofwat also presents new analysis that says that we have underspent our capex allowances by £1.1bn since privatisation.²¹

13. We are unable to replicate Ofwat's figure of underspend against capex allowances but it seems to use an incorrect figure for AMP 1, fails to include data from 24/25 and excludes cost sharing. When these three issues are corrected our capex spend is almost exactly in line with the allowances. As set out in our SoC we have overspent against our capital maintenance allowances (different to total capex) and overall totex allowances, after cost sharing, over an extended period.²²
14. Ofwat suggest that companies should use the cost sharing mechanism where additional investment is required.²³ It is unreasonable for Ofwat to rely on the existence of that mechanism to avoid setting allowances that properly remunerate the efficient costs of maintaining our asset base. On the contrary, the rate of replacement activity across the sector has to be looked at in the context of the funding that Ofwat has provided in each of its price controls.
15. Further to information on our expenditure levels, we note that: (i) on water mains and sewers, where Ofwat has collected sector-wide data on maintenance activity, our historical replacement rates are higher than the industry average;²⁴ and (ii) our performance on asset health performance commitments has been better than the targets set by Ofwat.²⁵

3.4. THE SCOPE AND COSTS OF OUR PROGRAMME HAVE EVOLVED SENSIBLY

16. Ofwat notes the changes in the scope and overall cost of our proposed asset health investment programme post-BP24 and suggests this is "not aligned with a company that has a good understanding of its asset base and the investment that is required". We disagree. Our SoC explained that these changes are well-justified and reflect the impact of a number of factors, including: a) the inclusion of service reservoirs following DD24 and our assessment of the resulting customer bill impacts, which we flagged in BP24; b) more in-depth reviews of site inspection reports for higher priority sites, largely in response to Ofwat feedback; and c) the removal of certain schemes from the investment case where remedial work has already commenced.²⁶ Furthermore, we commissioned an independent review and external benchmarking of our scheme-level costing which has led to changes in the forecast costs for individual schemes from BP24 precisely because at a previous stage Ofwat did not support the earlier approach, which relied on Monte Carlo simulations of expected costs.

3.5. OTHER POINTS OF DETAIL

Ofwat View	Reply
Need: concrete spalling	Ofwat references a 2010/11 UKWIR report containing generic commentary on a broad

²¹ Ofwat Response: CACs, Figure 8, p35.

²² SoC para. 289; Databook NWL Actual v Allowed Capex since AMP1 (REP001); NWL response to Query OFW-REP-NES-029, September 2024 (REP010) and the supporting excel (REP010a) showed Actual totex > Allowed post cost sharing for 2000-25; In Ofwat Response: CACs, para 5.53, Ofwat confirms that NWL has spent its base capex (capital maintenance) in full over 1990-24.

²³ Ofwat Response: CACs, para. 5.46.

²⁴ For water mains, see FD24 Renewal Rates, SOC315. For sewers, see SoC Economic Insight databook 'Sewer maintenance rates – 17-03-25'.

²⁵ I.e: water mains bursts, unplanned outages and sewer collapses: for example, [Ofwat Water Company Performance Report 2023/24](#), p.21, 27.

²⁶ SoC Sections 4.3.1-4.3.3, 4.3.6.2 and 4.3.7.

Ofwat View	Reply
	category of concrete structures. ²⁷ A later and more targeted UKWIR report classes concrete spalling as an indication of condition grades 4 or 5. ²⁸
Need: sensitivity to assumptions ²⁹	We agree that our findings in our illustrative example and case studies ³⁰ are sensitive to assumptions: this is inevitable for all forecasts. Our central estimates still stand despite the uncertainty and Ofwat has not suggested a better approach that could be taken. We have shown the consequence to customers of delay in this area. ³¹ The CMA decision will need to be made in the context of this uncertainty. The PCDs will provide customer protection.
Need: Challenge to deterioration modelling ³²	<ul style="list-style-type: none"> • The 2022/23 inspection introduced consistency in methodology and application of condition grading, making its findings more robust for the purposes of standardised deterioration modelling. While we do have historical condition data for our assets over a longer period, these are based on inspections carried out at different times with limited standardisation of methodologies, making it harder to carry out a longitudinal study. • We have records of how asset ages were determined for deterioration modelling. • Our modelling did not use a sample of our assets. It covered almost all (around 95%) of our above ground process assets at treatment works and service reservoirs. • On the correlation of our modelled results with observed data, our graphs in SOC613 are illustrative model outputs, not designed to assess goodness of fit. Data are grouped into 10-year groups, but the underlying models are fitted at the level of individual assets. We can share the results of significance tests if required. • The apparent overprediction of older assets in the model can be attributed to survival bias. Only a small proportion of assets survive to that old age and such assets could have been exposed to particularly benign conditions or have been repaired in the past.
What base buys: reliance on internal data ³³	We provided Ofwat with a detailed explanation of our approach to calculating the implicit allowance in BP24 and our DDR. ³⁴ While there are risks from relying on internal data (for example if our activity levels were lower than the industry average), we believe that we are less vulnerable to those risks given our track record on capital maintenance (see section 3.1 and 3.3).
Lack of engagement with opportunities to collect comparative data ³⁵	At the time of the cost assessment working group in March 2022 there was uncertainty about Ofwat's approach. ³⁶ Ofwat's April 2022 request indicated that Ofwat had itself considered and rejected the collection of data that would be relevant to our investment case (e.g. capital maintenance information on water treatment works) due to "limited data availability and quality" and "complexity of reporting". ³⁷ In that context, this is not a valid basis to not engage with our investment case.
The relevance of the number of CACs ³⁸	The relatively limited number of CACs does not necessarily imply a consensus amongst companies that base cost allowances are sufficient to fund a long-term sustainable level of capital maintenance. The third-party submission from Water UK raises capital maintenance allowances as a key problem, ³⁹ and all the DCs raise this issue in their statements of case outside the constraints imposed by the QAA.
Reflecting sector-wide information	We do not think it is prudent to defer this investment until Ofwat is able to collect sector-wide data. However, if the CMA were to accept our request for an adjustment, and Ofwat is subsequently able to collect sector wide data that improves the estimate of what base buys we are happy for our allowances to be adjusted at the PR29 price review by substituting our estimate of implicit allowances (based on internal data) with the sector wide estimate.

²⁷ Ofwat Response: CACs, para. 5.13. FN 41 of Ofwat Response: CACs refers to UKWIR, deterioration rates report (OF-CA-059) but we could not find the referenced information. We believe Ofwat intended to refer to another UKWIR report, "[Deterioration rates of long-life, low probability of failure assets](#)" 11/WM/13/2.

²⁸ UKWIR [Treated Water Storage Assets - Good Practice for Operation & Management](#) (19-RG-05-50), 2017, Appendix 11 pp. 238 and 243.

²⁹ Ofwat Response: CACs, paras. 5.15-5.18.

³⁰ NWL SoC Appendix 2 paras. 101-105 and Sections 7.4 and 7.5.

³¹ SOC Appendix 2, Annex A.

³² Ofwat Response: CACs, paras. 5.19-5.23.

³³ Ofwat Response: CACs, paras. 5.30. We explained our approach in SoC paras. 265-268.

³⁴ SoC paras. 265-168; BP24 Appendix A3-21 Asset Health, Section 5.4 SOC045; DDR Service reservoir replacements, Section 3.1 SOC206.

³⁵ Ofwat Response: CACs, paras. 5.32-5.34.

³⁶ Ofwat's [PR24 methodology consultation](#), which indicated several candidate approaches, was only published in July 2022, Section 6.3.

³⁷ Ofwat [IN 2022/02 Cost assessment data request](#), April 2022, Annex 1.

³⁸ Ofwat Response: CACs, para. 5.35

³⁹ [Water UK's third party submission to the Competition and Markets Authority's redeterminations of PR24](#), April 2025, Section 5.5.

Ofwat View	Reply
Purpose of 2022/23 inspections ⁴⁰	Our 2022/23 inspections were not undertaken due to “a notice from the DWI” relating to water treatment works. These inspections were driven by our desire to develop a robust evidence base for our BP24 and most of this investment relates to wastewater assets.
Historic concerns ⁴¹	Issues with underfunding for capital maintenance have been raised in previous regulatory periods, including the CMA's PR09, PR14 and PR19 redeterminations.
Differences between costings and benchmarks ⁴²	We do not consider the observed scheme-level variances to be excessive or unusual given that the costings were developed independently by different parties using different methods. Ofwat's own benchmarking models have seen much wider variations between modelled costs and company forecasts. ⁴³
Use of contractor quotes for benchmarking ⁴⁴	Maintenance work on civils structures is specialist and highly variable, making meaningful standardised cost benchmarks difficult to develop. Contractor quotes are a valid form of external benchmarking. We aren't aware of a better method, nor has Ofwat suggested one.
Level of detail available on our cost build up. ⁴⁵	We have provided evidence at BP24, DDR and SoC to demonstrate that our proposed costs are efficient. Following FD24 feedback from Ofwat, we undertook a benchmarking and targeted bottom-up costing exercise for schemes that make up 60% of the costs of the programme, and this has informed our request for an adjustment as set out in the SoC. We are happy to provide further scheme-specific costing information to the CMA if helpful.
Clarity of our proposed PCDs ⁴⁶	The PCDs proposed in our SoC are clearly defined by reference to the outcome, which is to change the condition of the named asset to condition grade 1 (good) or 2 (fair). We believe this is sufficient to protect customers by ensuring objective, measurable benefits in terms of asset health improvements whilst remaining proportionate in the level of prescription. We are happy to provide additional information on the scope of work planned at each site.
Risk of delaying investment	The legitimate evolution of our investment programme is not evidence of a lack of understanding of when the investment is required or the cost impact of any delay. ⁴⁷

17. Overall, Ofwat's attitude in its reply emphasises how important it is that CMA makes a decision in this area and doesn't rely on the Ofwat roadmap process.

4. OUR CLIMATE CHANGE ADAPTATION AND POWER RESILIENCE⁴⁸ CASE IS ROBUST

18. Ofwat presents evidence from UKCP18 to illustrate its assertion that our climate-related risks are not materially greater than those faced by other water companies.⁴⁹ However, this selection of charts does not support any conclusions about regional weather patterns or the risks that water companies will face. Our BP24 analysis was based on UKCP18 but was more detailed and specific and used more up-to-date climate models.⁵⁰

19. Ofwat states that Northern Powergrid (**NPg**) has received dedicated funding from Ofgem to address the same outage risks we identify, such that funding our case would risk duplication, and that it took this into account in FD24.⁵¹ This is incorrect. Most of the NPg investment is to make limited stretches of high voltage line more resilient and is focused on faster restoration

⁴⁰ Ofwat Response: CACs, para. 5.44.

⁴¹ SoC Appendix 1, Section 4, Figure 10, rows 3, 6, 9 and 11.

⁴² Ofwat Response: CACs, para. 5.59

⁴³ For example, Ofwat's models resulted in a variance between modelled costs and company estimates of -85% to +517% for storm overflows, -99% to +454% for STW growth and -100% to +304% for P-removal. See: [CA55 Wastewater Storm Overflows model](#), [CA83 Wastewater growth at STWs model](#) and [CA60 Wastewater P-removal model](#).

⁴⁴ Ofwat Response: CACs, para. 5.64.

⁴⁵ Ofwat Response: CAC, paras. 5.57-5.64.

⁴⁶ Ofwat Response: CAC, paras. 5.70-5.76.

⁴⁷ Ofwat Response: CAC, para. 5.82-5.83. See a detailed explanation of the change in the scope and costs in SoC Appendix 2 section 4.1.

⁴⁸ Ofwat, PR24 redeterminations, Response to Northumbrian Water (April 2025) (**Ofwat Response: NWL**) para 4.50 to 4.140.

⁴⁹ Ofwat Response: NWL, Figure 4.1, Figure 4.2, Figure 4.3, and Figure 4.4.

⁵⁰ See BP24 Appendix A8-01 Climate Resilience A, SOC061 and BP24 Appendix A8-02 Climate Resilience B, SOC062. Ofwat uses the CMIP5 model which points to a widespread increase in storms rather than localised to the North; however, that model is old and largely superseded, noting that the UK's climate policy recognises the need for regionalised and local strategies.

⁵¹ Ofwat Response: NWL, para 4.77.

after outages. It does not support our need for continuous power at the required quality at a more local level. NPg has confirmed that the “Storm Arwen Re-Opener initiatives are not designed to and will not result in any customer obtaining this level of resilience”.⁵²

20. The regulatory framework for electricity distribution networks (RIIO-ED2) provides network operators (**DNOs**) exclusions for severe weather events.⁵³ Following Storm Arwen the DNOs received penalties up to a maximum of c.£20m,⁵⁴ whereas Ofwat initially sought to apply a £25m+ to NWL for the cascading failure supply interruptions caused by those power outages.⁵⁵ Under the Arwen re-opener Ofgem has provided efficient investment to energy networks to address extreme weather risk and build greater resilience, whereas Ofwat has rejected our sensible proposals. The contrast in the two regulatory approaches is stark.
21. Ofwat says that Storm Arwen was a sectoral issue, not unique to NPg, and that six water companies all cited storm-related power outages as the primary factor contributing to their performance in the APR 2021-22.⁵⁶ This is misleading – Storm Arwen affected the North-East far more than other areas and had a much more dramatic impact in our region (where it was declared a civil emergency).⁵⁷ Indeed this was reflected in Ofwat's in-period ODI decisions at the time which made some adjustment for NWL but not other companies/regions.
22. Ofwat suggests that the increase in pollution incidents in recent years is simply a reflection of improved monitoring, rather than an increase in power related failures, but relies on flawed evidence.⁵⁸ The referenced EDM monitoring at storm overflows takes place at entirely different sites to those with power-related pollution incidents. Figure 4.7 is misleading: it reflects pollution incidents specifically related to power failures, not total pollution incidents.⁵⁹
23. Ofwat says that many of the sites we identified have not experienced power-related pollution incidents in the past ten years.⁶⁰ This misunderstands the method for assessment, which looks at forward-looking risk and criticality rather than simply looking back at which sites have experienced power failures. Ofwat also says that a low proportion of our pollution incidents are caused by power failures (25%) but doesn't acknowledge that this is much higher than other companies, such as United Utilities (4%)⁶¹ or that at this level this is one of the largest root causes of pollutions for NWL.
24. Ofwat criticises our selection of fixed back-up generators, but the evidence which supports its conclusion that a mobile or hybrid approach would offer the required level of resilience is flawed. The 30 minutes' drive time estimate which informs the mapping analysis is not based on any assessment of whether this is an appropriate timeframe and would not achieve much of the projected benefit and generators of this size are difficult to transport.⁶² Our optioneering

⁵² Northern Powergrid Letter to Northumbrian Water, 21 May 2025 (REP014).

⁵³ NWL [ODI In-period Adjustments: Consultation Response](#), 21 October 2022, p.13-14; Ofgem [RIIO-ED2 Final Determinations Core Methodology Document](#), 30 November 2022, para. 6.219-6.232.

⁵⁴ See Ofgem, [Final report in the review into the network's response to Storm Arwen](#), 9 June 2022, p.8.

⁵⁵ Ofwat, [Final determination of Northumbrian Water's in-period outcome delivery incentives for 2021-22](#), 15 November 2022, p.8.

⁵⁶ Ofwat Response: NWL, para. 4.84.

⁵⁷ SoC Appendix 5, paras. 37-38; BP24 Appendix A3-18 Power Resilience NES32, SOC042, p34; BP24 Appendix A8-03 Storm Arwen, SOC063.

⁵⁸ Ofwat Response: NWL, paras. 4.92-4.96.

⁵⁹ Ofwat Response: NWL, Figure 4.7. See SoC Appendix 5, Figure 14.

⁶⁰ Ofwat Response: NWL para. 4.89.

⁶¹ Ofwat Response: NWL para. 4.89. See SoC para. 373.

⁶² Ofwat Response: NWL paras. 4.106-4.110 and Figures 11 and 12.

analysis in BP24 is more robust. We asked Aqua consultants to review Ofwat's option again in light of the Response - this confirms that in a power outage under storm conditions, 91% of pumping stations would spill before a mobile generator could restore power at the site.⁶³

25. Ofwat's comparison of our costs to unit costs for fixed generators elsewhere in its challenge to our cost efficiency⁶⁴ is not right because a single unit cost approach assumes all generators are the same size. In practice, these costs are very different for different sites.⁶⁵ This shows that our costs are efficient and the difference in unit costs is driven by variation in sizes.

5. OTHER ISSUES

Ofwat View	NWL Reply
AMP7 Delivery Penalties	<p>It is disingenuous to suggest that because AMP7 delivery penalties impact only funding of AMP8 expenditures they are not retrospective in nature.⁶⁶ Ofwat's approach and Response ignores the impact of the incentives placed on business planning processes; the importance of regulatory predictability; and undermines the concept of outcomes-based regulation. Ofwat's assertion that the adjustments are required to avoid customers paying twice is also not correct: FD14 and FD19 did not include any clear deliverables and allowances were not hypothecated to specific areas of expenditure; they were not implicit obligations by reference to other legal obligations or good asset management practice; and they are not associated with any underspend in those AMPs.⁶⁷</p> <p>Ofwat is changing the goalposts between regulatory reviews in how it determines the implicit allowance for <i>meter replacement</i>. At FD24 it has simultaneously: for the AMP8 implicit allowance, looked at average historical replacement rates of meters as these are what were included in the base cost models used to estimate AMP8 allowances; and for the AMP7 retrospective adjustment, used the forecasts included in companies' business plans. This is a clear inconsistency. Using Ofwat's method for calculating the implicit allowance for AMP8 estimates 85,393 meter replacements for AMP7, yet we delivered more than this (103,987).⁶⁸ We therefore do not think there is a case to answer on this front even if it were legitimate to make a retrospective adjustment- which we do not because the framework was clearly designed to provide such flexibility. Ofwat does not respond to this point in its Response.</p> <p>Ofwat states that we spent less than our requested costs over 2015-25 period for <i>growth at sewage treatment works</i> and that we should have made this investment proactively in the past hence its adjustment to our costs for AMP 8 are warranted. The EA expects us to plan and invest in increased capacity when a treatment works exceeds its permit at "Q80" (this provides an estimate of dry weather flow, as this represents the flow on a "dry day"). This supports us to avoid non-compliance, which is when a treatment works exceeds "Q90" (that is, where the EA can have 95% confidence that a treatment works is operating above its permit). For Howdon, we had forecast that it would exceed Q80 – but investment we made in upstream to reduce surface water flows to Howdon and the impact of the pandemic meant that it did not exceed this level, and so the capacity increase was not required in AMP7. This is consistent with EA requirements.</p>
Business rates ⁶⁹	<p>Ofwat's calculation of the business rates forecast is incorrect as it double counts inflation.⁷⁰ It's rationale for deprioritisation⁷¹ is not sound: the VOA's February 2025 draft rateable value is a more recent and more accurate forecast than FD24; indications from the Autumn Budget 2024 are that the multiplier will increase;⁷² it is straightforward for CMA to adopt; adopting the best available forecast is consistent with FD24 objectives to reduce in-period cashflow burdens and large end-of period adjustments; and customers remain protected through cost-sharing.</p>

⁶³ Aqua, Time in Motion Study of Mobile Generator Deployment 15 May 2025 (REP013).

⁶⁴ Ofwat Response: NWL, Table 4.6.

⁶⁵ NWL DDR Power Resilience NES32A, SOC203, Section 3; Aqua Optioneering Report 2025, SOC005, Sections 3.4.5-3.4.6.

⁶⁶ Ofwat Response: NWL, paras. 4.148-4.153 (wtw growth); and Ofwat Response: Expenditure, paras. 2.263-2.280 (meter replacements). See SoC, Section 5.4.2.

⁶⁷ We can provide further commentary on the scenarios where we consider there might be a risk of customers paying twice – what they are and how they might apply to these measures - if required by the CMA.

⁶⁸ SoC, para. 432.

⁶⁹ Ofwat Response: Expenditure, para. 2.388.

⁷⁰ Databook - SOC282 NWL VOA Valuation 2026 - with additional notation on indexation (REP004)

⁷¹ E.g. ongoing negotiations, uncertainty over values, PR29 reconciliation – see Ofwat response: Overview, para 5.7.

⁷² [Autumn Budget 2024 – HC 295](#), para 243

Ofwat View	NWL Reply
Cost pass through of Licence fees ⁷³	A claim for £9.1m should not be dismissed as immaterial. There is no evidence of company engagement having had meaningful influence over Ofwat's activities or its budget. The information is clear and the adjustment relatively simple and easy to make.
Network reinforcement	Ofwat accepts our case for network reinforcement costs, subject to the application of a PCD which we are happy to accept. ⁷⁴
Unambiguous errors	We did not highlight the error identified by Ofwat in CA83 as it has no impact on our determination (in either direction) but it demonstrates a correction by Ofwat of an error that appears immaterial by its own standards and which impacts all company allowances. ⁷⁵ This contradicts Ofwat's rationale for not correcting other errors (e.g. in the CA68 septic tanks model). Where Ofwat has agreed the error and updated its models, the CMA can deprioritise the issue and utilise the updated allowances. ⁷⁶ We do not see any reason to deprioritise consideration of the errors set out in our SoC that Ofwat has not agreed ⁷⁷ (despite recognising these are errors) and which we have demonstrated are straightforward to address by simply adjusting our allowance to the correct amount. ⁷⁸
Catchment Nutrient Balancing (CNB) P-removal schemes	We welcome Ofwat's support for adjusting the totex allowance for P-removal schemes "now that it is clear [CNB] solutions can no longer be taken forward as part of PR24". ⁷⁹ We can demonstrate that there is no overlap between our requested funding for new end-of-pipe solutions and existing allowances. ⁸⁰ We can demonstrate that the proposed £14m investment in CNB will not contribute to outperformance against current permits that would remove the need for the end-of-pipe solutions ⁸¹ - that is because outperformance at a treatment works means that the discharge from the treatment works has met a higher standard for phosphorus than its designed capacity; any CNB activity happens <i>around the river itself</i> and so does not affect discharge from treatment works. Our SoC is not a 'change in position': ⁸² the SoC reflects the detailed costs for each solution based on our best information about new permit requirements. This does not suggest a level of inconsistency that would necessitate a deep dive (and Ofwat should know from the information it has already that there is no overlap with existing allowances, which are at other sites). FD24 provides a clear intention from Ofwat that "allowances for new schemes will be determined based on the phosphorus model" ⁸³ and we have shown how this would closely match our own estimated costs in aggregate (even taking "no build" sites into account): our estimated costs for all sites is £115.1m but in our SoC we request £104.7m (the Ofwat modelled costs). However, if a deep dive is required, we can provide full cost estimates.
Industrial Emissions Directive	Ofwat's Response misrepresents the nature and context of our IED request, including the history at PR19, our approach to inclusion at PR24, the timing implications of the May 2024 Schedule 5 notice, and whether this could support a conclusion that customers are at risk of paying twice. ⁸⁴ We encourage the CMA to review our SoC evidence.
Suffolk Water Resources	Ofwat accepts the need to adjust these plans. ⁸⁵ We intend to use the WRMP annual review process to notify and agree the proposed change to scheme delivery and WRMP with the Secretary of State, the EA, and Ofwat. ⁸⁶ This change would push costs and revenues back aiding affordability pressures.
Bacton	We have no record of a suggestion from RAPID that our transfer scheme could be included in

⁷³ Ofwat Response: Expenditure, paras. 2.348-2.351.

⁷⁴ Ofwat Response: Expenditure, paras. 2.306-2.307. The PCD set at FD24 for this expenditure could be updated (FD24 Price Control Deliverables, SOC310, Section 3.3). The requested list of schemes to support monitoring has already been provided to Ofwat (and the CMA): NWL SoC Databook Figure 39. The same list was also separately provided to Ofwat on 4 April 2025.

⁷⁵ Ofwat Response: Expenditure, Table 28 – error in CA83 Growth at STWs model. For some companies the adjustment is just £0.02m (see OF-CA-220), yet the correction to CA68 with impacts ranging from -£2.361m to £2.187m is described as having "low materiality".

⁷⁶ This applies to the error we identified with respect to CA55 (SoC Appendix 1, Section 10.1) which Ofwat confirms it has corrected.

⁷⁷ SoC Section 7, Figure 55: errors relating to CA110 and CA68.

⁷⁸ SoC Appendix 1, Sections 10.2 and 10.3.

⁷⁹ Ofwat Response: Expenditure, para. 5.71.

⁸⁰ Ofwat Response: Expenditure, para. 5.71. See OFW-REP-NES-005 - Response from NES (REP011) and the supporting excel (REP011a) which shows the schemes mapped to different categories and their treatment in the Ofwat business plan tables. See FD24 model PR24-FD-CA60 (OF-CA-113) (four traditional p-removal schemes and four catchment permitting schemes) and FD24 model [PR24-FD-CA64](#) (nine end-of-pipe solutions in areas that also have CNB which were funded at FD24 so are not covered by the request in the SoC (see SoC Appendix 1, Figure 33).

⁸¹ Ofwat Response: Expenditure, para. 5.69.

⁸² Ofwat Response: Expenditure, paras. 5.68 and 5.71.

⁸³ FD24 Expenditure, SOC309, p133.

⁸⁴ Ofwat Response: Expenditure, paras. 5.72-5.94. A full description of the history is provided in SoC Appendix 1, Section 9.2.

⁸⁵ Ofwat Response: NWL, para. 4.38.

⁸⁶ This annual submission is due by 30 June 2025. We note that there is no specific timeline for when any approval for a delay would be given.

Ofwat View	NWL Reply
Desalination Bulk Supply Pipeline	the Bacton SRO. ⁸⁷ If Ofwat/RAPID were to accept that alongside a true-up for development costs, it could be an alternative solution. In the meantime, we will seek clarification from the EA regarding the need for the scheme.
Howdon growth scheme	<p>Ofwat accepts that if the forecast costs of accommodating growth at our Howdon treatment works are circa. £329m then a reopener for the new scope would be appropriate.⁸⁸ We can provide this evidence if the CMA requires it. However, we are concerned that Ofwat will not provide sufficient funding through the gated process because it wrongly assumes that business plan forecasts could be used to estimate the level of funding for growth in AMP7.⁸⁹ The PR19 FD (and subsequent CMA adjustment) did not hypothecate the growth allowance to particular outputs (see 'AMP 7 delivery penalties' above). Ofwat's adjustment is simply not warranted and amounts to retrospective regulation. We request that the CMA clarifies to Ofwat that no such adjustment is required. In any event an assessment of AMP7 growth funding should be determined through proper analysis of implicit allowances from Ofwat's models not it's unreasonable use of business plan forecasts that did not set allowances.</p> <p>Regarding Ofwat's request for clarity on the change in requirements that drives the need for investment in the storm tanks⁹⁰ the PR19 WINEP guidance allowed companies and EA to agree to remove the requirement for 68l/hd storm tanks at transitional and coastal sites under certain circumstances.⁹¹ Our PR19 growth estimate did not include new storm tanks at Howdon, because this was not expected at the time⁹² - because the EA agreed to its removal for Howdon as it discharges into the estuary and so is very high dilution. Our PR19 business plan shows that the seven treatment works that we identified under U_IMP6 did not include Howdon so Howdon was not taken forward through WINEP.⁹³ We remain compliant with our permit at Howdon, but now expect to need to build new storm tanks to meet the 68l/hd requirement as part of growth investment – as Howdon currently uses the primary tanks as storm tanks, and we would not expect the EA to now agree such an exclusion under the PR24 driver guidance.</p>
Implied company return exceeds allowed equity return. ⁹⁴	Ofwat asserts, including in its presentation to CMA that we expect a 7% RoRE return in AMP8. We do not and never have. Ofwat's analysis is not wholly based on data we have provided and uses its own assumptions. It incorrectly double counts the uplift in WACC from DD24 to FD24, which adds 0.69% to NWL expected returns. It also utilises the increase in totex allowances between DD24 and FD24, but this does not change the totex delivery risk. These calculations are unreliable and do not replace the evidence in the KPMG risk report (SOC573). ⁹⁵
Outturn Adjustment Mechanism (OAM)	Outperformance by a median company is possible and without the deadband the OAM may reduce ODI payments for all companies, but we consider that it is more likely that the median company will underperform the package and are prepared to accept the (smaller, in our view) risk that the ODI payments would be lower if our expectation turns out to have been overly pessimistic. ⁹⁶ On incentives and the potential impact on collaboration, the behavioural risk identified by Ofwat is speculative and is not supported by evidence. ⁹⁷ We do not, for example, find these issues with other (common) comparative incentives like CMex or DMex.
Financeability	Ofwat refers to an NWL gearing level of 73.7% in 2030. ⁹⁸ This reflects BP24 using an early view WACC of 3.55%. FD24 WACC rose to 4.03% and our SoC uses 4.57%. These higher WACC values would bring gearing down to around 70%, within the credit rating thresholds for Baa1/BBB+.

⁸⁷ Ofwat Response: NWL, para. 4.46.

⁸⁸ Ofwat Response: NWL, paras. 4.163, 4.173.

⁸⁹ Ofwat FD24 Enhancement cost modelling appendix, page 108

⁹⁰ Ofwat Response: NWL, para. 4.167.

⁹¹ Ofwat, PR19 driver guidance for U_IMP5 and U_IMP6, December 2017, (REP012), p3

⁹² This is clearly shown in our [PR19 enhancement case](#) Appendix 3.2: Wastewater Howdon (p.21), which includes no investment for storm tanks.

⁹³ [NWL BP19 Appendix 3.3.6 Wastewater WINEP](#), p.19.

⁹⁴ Ofwat, PR24 redeterminations, Risk and return – common issues (April 2025) (**Ofwat Response: Risk & Return**) paras 2.2-2.5 and Figure 2.1; Slide 43 of Ofwat CMA presentation 8 May; Ofwat Response: Data for Figure 2.1 - PR24 DD to FD RoRE - disputing companies.xlsx

⁹⁵ See Databook - Data for Figure 2.1 - PR24 DD to FD RoRE - disputing companies NWL analysis (REP003).

⁹⁶ Ofwat Response: Risk & Return, para. 2.77. See SoC Section 5.6.1.6.

⁹⁷ Ofwat Response: Risk & Return, paras. 2.78-2.79.

⁹⁸ Ofwat Response: NWL, para. 3.28.