

## **PR24 Redetermination**

### **Submission on the CMA's proposed approach and prioritisation**

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South East Water  
Rocfort Road  
Snodland  
Kent  
ME6 5AH

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## 1 Introduction

- 1.1 This submission contains SEW's views on the CMA's "Approach and prioritisation" document published on 28 May 2025 (the **CMA Approach document**). It includes clear cross-references to SEW's prior submissions where relevant.

## 2 The CMA's overall approach

### Considering afresh

- 2.1 Whilst we appreciate the considerable burden placed on the CMA by multiple water price control redeterminations and the case for future reform in this regard<sup>1</sup>, it is important that the CMA's drive for procedural efficiency does not inadvertently compromise its redetermination.
- 2.2 A water redetermination requires the CMA to 'stand in Ofwat's shoes', consider the evidence afresh and reach its own conclusions as regards the appropriate price control package (contrary to an appeal – in which the regulator's decision stands unless the appellant is able to satisfy the CMA that it was wrong on one or more specified legal grounds).
- 2.3 However, this is not always clearly reflected in the CMA Approach document. For example:
- (a) The CMA is in various places "*mindful of the extensive consultation that Ofwat carried out on aspects of its approaches*"<sup>2</sup> and "*the substantial amount of work conducted in PR24 to develop ... models*".<sup>3</sup> However, these factors tell the CMA nothing about whether the output of consultation properly reflected stakeholder input or the time spent resulted in models capable of providing the right allowances for costs.
  - (b) The CMA intends to deprioritise a number of claims for additional funding on *de minimis* grounds (discussed in more detail later in this submission), with the result that Ofwat's PR24 FD will stand unquestioned for these purposes even though there is a dispute.<sup>4</sup> It is unclear, however, why this should necessarily be the case. Given the acknowledged insignificance of customer bill impact, we think it should at least be considered by the CMA – in line with the applicable statutory duties – whether it would instead be best calculated to further the consumer and resilience objectives (among others) for the relevant costs to be allowed as per our SoC.
- 2.4 We therefore urge the CMA to ensure that it is not showing Ofwat's PR24 FD undue deference but rather, consistent with the statutory framework, determining afresh the matters before it.

### Using recent data and company selectivity

- 2.5 In relation to the proposal by Ofwat and CCW that the CMA should not take into account more recent data, the CMA's Approach document states: "*we do not consider that the current legal framework for our redeterminations allows us to disregard relevant, available and robust data*".<sup>5</sup> We agree with this analysis, as set out in our Reply to Ofwat's Response.<sup>6</sup>
- 2.6 The CMA comments on Ofwat's reasoning for proposing that the CMA ignore the latest available data as follows: "*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*".<sup>7</sup> In fact, we think these concerns are misplaced. The decision to seek a price control redetermination is a remedy of last resort for any company. It is

<sup>1</sup> CMA, 14 May 2025, [Response to the Independent Water Commission Call for Evidence](#).

<sup>2</sup> CMA, 28 May 2025, Water PR24 Redetermination References – Approach and prioritisation, paragraph 22.

<sup>3</sup> CMA, 28 May 2025, Water PR24 Redetermination References – Approach and prioritisation, paragraph 41.

<sup>4</sup> CMA, 28 May 2025, Water PR24 Redetermination References – Approach and prioritisation, paragraph 64.

<sup>5</sup> CMA, 28 May 2025, Water PR24 Redetermination References – Approach and prioritisation, paragraph 96.

<sup>6</sup> SEW, 27 May 2025, Reply to Ofwat's Response, paragraph 1.7.

<sup>7</sup> CMA, 28 May 2025, Water PR24 Redetermination References – Approach and prioritisation, paragraph 96.

time-consuming, lengthy and costly and places additional pressure on delivery. It is also well understood that, as part of a redetermination, the CMA can examine any aspects of the price control – including those not raised by the company – and the end result could be less favourable than Ofwat's outturn position. So whilst, under the statutory framework, companies are entitled to request a redetermination for any reason, they cannot do so on the basis of an assumption that outturn data may be more favourable without facing the risk of a less favourable redetermination in other areas.

- 2.7 A similar point arises elsewhere in the CMA Approach document, where the CMA references “*the incentive for Disputing Companies to selectively raise issues for redetermination*”.<sup>8</sup> In this regard, it should be noted that SEW had a lengthy list of issues which it could have included in its SoC but, following its own internal prioritisation exercise, ultimately included only essential schemes underfunded by Ofwat in the PR24 FD. For the avoidance of doubt, this means that those issues which SEW deprioritised – that we were also not funded for in Ofwat's PR24 FD – must be delayed or accommodated elsewhere.

### Addressing company-specifics and the overall package ‘in the round’

- 2.8 We understand the CMA's proposal to treat some matters raised by several main and third parties on issues of principle as common issues, on which it will hold joint hearings and require joint submissions.<sup>9</sup> This seems sensible and consistent with the overriding objective of enabling the CMA to dispose of redetermination references fairly, efficiently and at proportionate cost within the statutory time period.
- 2.9 However, we encourage the CMA not to adopt the ‘one-size-fits-all’ approach which has afflicted Ofwat's process and decision-making. SEW has suffered as a result of Ofwat's lack of engagement on company-specifics and it is critical for us and the service we are able to provide to our customers that this is addressed via the CMA redetermination process.
- 2.10 We also request that the CMA assesses the overall package ‘in the round’ – including taking into account how funding impacts performance, how PCLs and ODIs affect risk and return and the need to ensure resilience and water security for our customers – and that opportunity is provided for this to be discussed during our company-specific hearing.

## 3 Costs

### Base costs

- 3.1 We welcome the CMA's proposal not to adopt Ofwat's recommendation of deprioritising base cost modelling.<sup>10</sup> These models account for the majority of our base allowance and nearly half of our totex allowance and, as such, their ability to provide a reasonable ‘baseline’ expenditure allowance (after which CACs and post-modelling adjustments are applied) deserves proportionate scrutiny.
- 3.2 We are supportive of an approach which seeks to improve Ofwat's econometric models and benchmarking and reflect SEW's genuine cost drivers. However, consistent with the view recently expressed by the Independent Water Commission, we think “*there are limits to how accurate ... a benchmarking framework and econometric tools can be and the extent to which the[y] can be relied upon*” and “*this is particularly true for the water industry in which water firms face very different challenges (for example, geography, hydrology, demography and history)*”<sup>11</sup>.
- 3.3 With particular regard to the CMA's proposal to “*explore a data-driven approach to variable selection using econometric tools such as LASSO (Least Absolute Shrinkage and Selection Operator)*”, we agree that data-driven model development procedures (such as LASSO) could

<sup>8</sup> CMA, 28 May 2025, Water PR24 Redetermination References – Approach and prioritisation, paragraph 34(a). See also paragraph 30: “*We are mindful of Disputing Companies' incentives to selectively raise areas where the price control settlement might be unfavourable to them.*”

<sup>9</sup> CMA, 28 May 2025, Water PR24 Redetermination References – Approach and prioritisation, paragraph 27(c).

<sup>10</sup> CMA, 28 May 2025, Water PR24 Redetermination References – Approach and prioritisation, paragraph 41.

<sup>11</sup> Independent Water Commission, 3 June 2025, Interim Report, paragraphs 28, 178, 181 and 184.

help to inform the selection of cost drivers. However, data-driven methods need to be considered alongside other important, more ‘real world’, modelling criteria, such as the operational, engineering and economic rationale for including or excluding certain cost drivers and the quality of the underlying data. Data-driven methods can therefore be an additional source of evidence supporting key modelling decisions but cannot be used as the sole basis for making such decisions – especially when applying such methods on a relatively small and heterogenous dataset. The CMA must ensure that it is informed by data – but not exclusively data-led – and thinking in a practical way about the real-life cost drivers for SEW.

- 3.4 In our review of regulators that use LASSO to inform model development, no regulator uses it as the sole basis for model development.<sup>12</sup> Moreover, data-driven approaches like LASSO are not ‘assumption-free’, and tweaking the assumptions or data or the specifications of the LASSO approach can lead to materially different outcomes – so the selected models should be evaluated in this context of underlying data and modelling uncertainty. In this respect, we welcome the CMA’s stated intention to review the catch-up efficiency challenge, the frontier shift challenge (see further below) and PCLs considering the uncertainties associated with econometric benchmarking.
- 3.5 We disagree with the CMA’s proposal to deprioritise as *de minimis* claims relating to business rates, National Insurance changes, Ofwat’s licence fee and the Environment Agency levy. These costs should be considered and allowed for as they are certain and outside company control.
- 3.6 Of lesser importance, but for completeness, we note a typo in the CMA Approach document which references SEW’s economies of scale in “wastewater” (should be “water”) treatment services claim.<sup>13</sup>

### Enhancement costs

#### Enhancement cost lines (*de minimis*)

- 3.7 The CMA proposes to deprioritise four enhancement cost lines included in our SoC on *de minimis* grounds: namely, **drinking water protected areas; SRN River Medway WTW; cyber security** and **SEMD**.<sup>14</sup> The CMA defines *de minimis* as where “*the issue has an insignificant impact on customer bills or other outcomes. 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)*”.<sup>15</sup> It further notes that “*none [of these cost lines] raises substantial wider issues of principle*”.<sup>16</sup>
- 3.8 We strongly disagree that our case in relation to any of these schemes is *de minimis* and does not raise substantial wider issues of principle. On the contrary, each of these enhancement lines is directly linked to statutory requirements to which we are subject and/or to our wider case on the need for investment to address risks to resilience and water security.
- 3.9 In addition, we note the following:
  - (a) The CMA’s proposed approach is a departure from its consistent practice in previous redetermination processes, including PR19, where it did not apply a fixed materiality test of this type.
  - (b) While there is precedent for a materiality assessment in energy licence modification appeal processes, the legal framework for water redeterminations is different. In energy appeals, a requirement to assess materiality is implied by the statutory framework, as permission to appeal may be refused on the grounds that the appeal is brought for reasons that are trivial

<sup>12</sup> For example, see Sumicsid and CEER (2025), ‘[CEER-TCB21 Model Specification GAS FINAL REPORT](#)’, January, section 5; Swiss Economics (2024), ‘[Effizienzvergleich Verteilernetzbetreiber Strom der vierten Regulierungsperiode](#)’, section 5.

<sup>13</sup> CMA, 28 May 2025, Water PR24 Redetermination References – Approach and prioritisation, paragraph 44.

<sup>14</sup> CMA, 28 May 2025, Water PR24 Redetermination References – Approach and prioritisation, paragraph 64(c)-(f).

<sup>15</sup> CMA, 28 May 2025, Water PR24 Redetermination References – Approach and prioritisation, paragraph 34(a).

<sup>16</sup> CMA, 28 May 2025, Water PR24 Redetermination References – Approach and prioritisation, paragraph 64(a).

or vexatious; that the appeal has no reasonable prospect of success; or if the person bringing the appeal is not “*materially affected*” by the decision.<sup>17</sup> No such permission requirement or materiality assessment is set out in the Water Industry Act 1991.

- (c) In any event, the CMA’s proposal to apply a materiality threshold of 0.5% of totex to individual cost lines is inconsistent with precedent from appeals in the energy sector. In *Firmus*, the CMA stated that where the impact of an error as a percentage of the price control is below 0.1%, the error is unlikely to be capable of producing a material effect on the price control.<sup>18</sup> The CMA’s proposed approach is therefore a significantly higher bar than has been applied in previous cases.
- (d) The CMA has previously acknowledged that matters which might not be material in themselves, may nonetheless be material when aggregated with other matters.<sup>19</sup> In this case, the CMA proposes to deprioritise four of our enhancement cost lines on the grounds that each individually represents less than 0.5% of totex. However, cumulatively, these items represent **£11.4m of costs**, equivalent to **2.0% of enhancement expenditure and 0.6% of totex**, which is above the CMA’s proposed threshold (and in addition to the cost efficiency already built into our PR24 business plan). In reality, each of these enhancement costs lines is part of our overall enhancement investment programme which, as described in our SoC, has been designed as a coherent whole. The proper figure for assessing materiality is therefore the overall size of the enhancement cost “gap” we have requested funding for from the CMA, i.e. **£227.4m**, equivalent to **39.2% of enhancement expenditure and 12.2% of totex**.
- (e) We have already prioritised our CMA case based on materiality. As stated in our SoC, we have only requested the CMA to consider our enhancement cost gaps worth £1m or greater.<sup>20</sup> While this level of spend may not be material for larger WaSCs, it is highly material for SEW as a small WoC, especially in view of the overall stretch in the PR24 FD package. If the CMA’s redetermination does not improve on Ofwat’s PR24 FD in these areas, SEW will need to overspend against its allowances, reducing the funds available in other important areas (in a price control where, as already highlighted, there is very limited totex flexibility due to PCDs). For example:
  - (i) Our drinking water protected areas, cyber security and SEMD enhancement lines all involve notices issued by the DWI requiring us to carry out the proposed investments.<sup>21</sup>
  - (ii) In relation to the SRN River Medway WTW scheme, our analysis – looking at the relevant Act of Parliament<sup>22</sup> and associated legal agreement between Southern Water and SEW – confirms that SEW has no right to prevent Southern Water incurring costs in the maintenance and operation of the relevant WTW and therefore no control over the cost exposure faced.<sup>23</sup>
- (f) It is also inconsistent and disproportionate to propose to deprioritise SEW’s SRN River Medway WTW scheme enhancement line (relating to our 25% share of the capex at [REDACTED]) as *de minimis* but proceed with a redetermination in respect of Southern Water’s equivalent enhancement costs claim (relating to its 75% share of the capex at the same WTW).<sup>24</sup> This approach risks significant unfairness in the event that the CMA allows additional funding for Southern Water in respect of this scheme and the rationale for the CMA’s approach is unclear, particularly in circumstances where there will be no procedural

<sup>17</sup> Gas Act 1986, section 23B(4)(a)-(d); Electricity Act 1989, section 11C(4).

<sup>18</sup> CMA, 26 June 2017, *Firmus Energy (Distribution) Limited v Northern Ireland Authority for Utility Regulation*, Final determination, paragraph 3.24. In this case, the CMA was citing the previous approaches of the CMA and CC in relation to telecoms cases, see: CMA, 13 June 2016, *BT v Ofcom and TalkTalk v Determination*, paragraph 2.35; and Competition Commission, 31 August 2010, *Carphone Warehouse (LLU)*, Final Determination, paragraph 1.60.

<sup>19</sup> CMA, 26 June 2017, *Firmus Energy (Distribution) Limited v Northern Ireland Authority for Utility Regulation*, Final determination, paragraph 3.26(a)-(c).

<sup>20</sup> SEW, 21 March 2025, SoC, paragraph 4.43(a).

<sup>21</sup> SEW, 21 March 2025, SoC, Annex G, paragraphs 129, 197 and 216.

<sup>22</sup> Medway Water (Bewl Bridge Reservoir) Act 1968.

<sup>23</sup> SEW, 21 March 2025, SoC, Annex G, paragraphs 265 to 266.

<sup>24</sup> See Southern Water, 21 March 2025, SoC, section 7.2 and in particular paragraphs 342 and 343.

efficiency benefits as the CMA will need to assess proposed spending at [REDACTED] for Southern Water in any event.

3.10 As set out in our SoC, each of SEW's enhancement schemes form part of a coherent 'root cause' resilience strategy to address the challenges which have arisen during AMP7 and we need full funding for these schemes in order to improve resilience and deliver water security for our customers.<sup>25</sup>

3.11 We summarise below the 'real life' impact of the CMA's *de minimis* deprioritisation proposals:

Area	Programme	Scheme	CMA Request £m	Impact
Resilience and Security	Resilience	River Medway Scheme	6.8	Regardless of the allowance, we are required to pay 25% of Southern Water's outturn costs which exposes us to risk and has an impact on the overall deliverability of our programme.
Resilience and Security	Security	Cyber	1.5	Underfunding leaves [REDACTED] and exposes us to non-compliance with DWI regulatory notices.
Resilience and Security	Resilience	SEMD	1.2	We cannot operate our full alternative supply model in the event of supply interruptions if we are not fully funded, which increases the risk of supply issues for our customers. This also exposes us to non-compliance with DWI regulatory notices.
WINEP	WINEP/ Resilience	Drinking water protected areas	1.9	We would be forced to reduce the scope of each catchment solution in AMP8 because of Ofwat's costs challenge. This threatens the quality of our drinking water sources which will negatively impact the service provided to our customers. It also exposes us to non-compliance with EA regulatory notices and a failure to meet environmental targets.
<b>Total</b>			<b>11.4</b>	

3.12 For the avoidance of doubt, we assume that as neither service reservoirs nor raw water deterioration are included in the CMA's list of schemes that it proposes to deprioritise on *de minimis* grounds<sup>26</sup>, our allowances for these line items will be considered by the CMA. The CMA's proposal to deprioritise SEW's request for funding for PFAS raw water deterioration schemes is addressed below.

#### **PFAS raw water deterioration schemes (alternative route)**

3.13 The CMA proposes to deprioritise SEW's request for £9 million to fund a number of PFAS raw water deterioration schemes, on the basis that Ofwat has said these schemes could be incorporated into the PFAS uncertainty mechanism.<sup>27</sup> However, we believe the CMA has misunderstood Ofwat's position in respect of our proposal for five catchment studies (at a cost of £4.2m).

3.14 Specifically:

<sup>25</sup> SEW, 21 March 2025, SoC, section 3.

<sup>26</sup> CMA, 28 May 2025, Water PR24 Redetermination References – Approach and prioritisation, paragraph 64.

<sup>27</sup> CMA, 28 May 2025, Water PR24 Redetermination References – Approach and prioritisation, paragraph 63(c).

- (a) Our SoC requested that the CMA fund the following PFAS schemes which were not funded in Ofwat's PR24 FD:<sup>28</sup>
- (i) [REDACTED] this scheme was included in our DDR, but Ofwat disallowed the requested funding in full in the PR24 FD based on the need for the investment, not having understood that there is a relevant DWI undertaking for this site.<sup>29</sup>
  - (ii) [REDACTED] this scheme was not included in our DDR (and therefore not funded at PR24 FD) due to the short notice between the change in DWI guidance in late August 2024 and the DDR deadline.<sup>30</sup>
  - (iii) A further five catchment studies (£4.2m): as above, these schemes were not included in our DDR (and therefore not funded at PR24 FD) due to the short notice between the change in DWI guidance in late August 2024 and the DDR deadline.<sup>31</sup>
- (b) We have accepted that our [REDACTED] and [REDACTED] PFAS schemes be deprioritised and dealt with via Ofwat's PFAS re-opener, as set out in our Reply to Ofwat's Response.<sup>32</sup> However, we do not accept that our five further catchment studies PFAS scheme (valued at £4.2m) should be deprioritised (as highlighted to the CMA by email on 16 May 2025).
- (c) Ofwat's Response makes clear that the PFAS reopener will only be available for schemes with "a site specific notice to demonstrate investment need and DWI endorsement".<sup>33</sup> This is expected to be the case for our [REDACTED] and [REDACTED] PFAS schemes, so we are able to accept the referral of these schemes to the reopener.
- (d) However, as highlighted to the CMA by email on 16 May 2025<sup>34</sup>, the driver for the five catchment studies schemes was the August 2024 change to DWI guidance on PFAS, which meant that five of our sites were reclassified from "tier 1" to "tier 2", newly requiring us to design a proactive and systematic risk reduction strategy for each site. These studies therefore have the same rationale as the £14.4m of catchment work which Ofwat funded in the PR24 FD and the per-study costs for these five catchment studies are similar in magnitude to those submitted and allowed for in full by Ofwat in the PR24 FD. However, as there is no proposal or expectation that these sites will be subject to a site-specific DWI notice, it does not appear that the PFAS Reopener would apply.

3.15 We therefore ask the CMA to reconsider its proposal to deprioritise SEW's request for £4.2 million to fund five catchment studies as, contrary to the CMA's conclusion, we believe there is no route to funding for these schemes beyond the CMA process.

### Frontier shift

3.16 We welcome the CMA's proposal to evaluate the evidence on frontier shift submitted by Ofwat, Disputing Companies and third parties. We particularly encourage the CMA to take a step back and consider what is a reasonable expectation for ongoing productivity growth in the industry given the prevailing economic outlook.

<sup>28</sup> SEW, 21 March 2025, SoC, Annex G, paragraphs 121 to 151.

<sup>29</sup> SEW, 21 March 2025, SoC, Annex G, paragraphs 143-144.

<sup>30</sup> SEW, 21 March 2025, SoC, Annex G, paragraphs 131 and 145-146.

<sup>31</sup> SEW, 21 March 2025, SoC, Annex G, paragraphs 131 and 145-146.

<sup>32</sup> SEW, 27 May 2025, Reply to Ofwat's Response, Table 2, row 17.

<sup>33</sup> Ofwat, April 2025, PR24 redeterminations – response to South East Water's SoC, paragraph 4.188.

<sup>34</sup> Norton Rose Fulbright email to CMA, sent on 16 May 2025 at 14:50.



## 4 Outcomes

- 4.1 We welcome the CMA's indication in the CMA Approach document that it will look at each of the specific ODI issues raised by SEW, including Water Supply Interruptions, C-Mex and reconsidering the application of a £3.9m penalty under a PR19 ODI associated with NHH voids.<sup>35</sup>
- 4.2 For the avoidance of doubt, we understand that the latter is outside the CMA's list of "unchallenged" PR19 reconciliations proposed to be deprioritised as it has been challenged by SEW and the CMA has explicitly outlined its intention to prioritise the issue.<sup>36</sup>

## 5 Risk and return

- 5.1 We welcome the CMA's intention to set the allowed return at a level "*to ensure that debt and equity investors are appropriately compensated for the risks of providing funds to the industry*".<sup>37</sup> We consider that the step change in risks facing the industry was not captured in the PR24 FD.<sup>38</sup>
- 5.2 We note, however, that the CMA Approach document refers to a "*reasonable prospect*"<sup>39</sup> or "*reasonable opportunity*"<sup>40</sup> of earning the allowed return – but, as set out in our SoC, what matters for a 'fair bet' is that an investor in a notional company operating in our region can reasonably expect to achieve the allowed return on a mean-expected basis.<sup>41</sup>

### Allowed return

- 5.3 We support the CMA's proposal to carry out an independent assessment of the WACC (without deprioritising any of the parameters) and to consider SEW's request for a company specific adjustment on the cost of debt.<sup>42</sup>
- 5.4 We also welcome the CMA's approach to exploring "*suitable*" CAPM cross-checks<sup>43</sup> and request that the CMA consider appropriate criteria for 'suitability' in this context.
- 5.5 With regard to incorporating new data:
- (a) We note the CMA's comments re new arguments on methodology.<sup>44</sup> For the avoidance of doubt, relevant arguments in our SoC and other submissions were raised with Ofwat throughout the PR24 process.
  - (b) We request that the CMA include Annual Performance Report (APR) 2024-25 data for companies (once available) in its assessment of the cost of debt. The deadline for companies to submit their 2024-25 APRs to Ofwat is 15 July 2025, so this is well within the CMA's proposed cut-off date for market data in its final report (and consistent with Ofwat's reliance on APR 2023-24 data in its cost of debt modelling for the PR24 FD).

### Balance of risk

- 5.6 We welcome the CMA's intention to consider the balance of risk as a separate building block and to address risk asymmetry 'at source'.<sup>45</sup> However, we note that the CMA Approach document includes limited comments on company-specific risk – which is an essential part of assessing SEW's balance of risk and return.

<sup>35</sup> CMA, 28 May 2025, Water PR24 Redetermination References – Approach and prioritisation, paragraphs 70 and 71.

<sup>36</sup> CMA, 28 May 2025, Water PR24 Redetermination References – Approach and prioritisation, paragraphs 93 and 94.

<sup>37</sup> CMA, 28 May 2025, Water PR24 Redetermination References – Approach and prioritisation, paragraph 75.

<sup>38</sup> SEW, 21 March 2025, SoC, Annex H, paragraphs 109-116.

<sup>39</sup> CMA, 28 May 2025, Water PR24 Redetermination References – Approach and prioritisation, paragraph 76.

<sup>40</sup> CMA, 28 May 2025, Water PR24 Redetermination References – Approach and prioritisation, paragraph 84.

<sup>41</sup> SEW, 21 March 2025, SoC, Annex H, paragraphs 15, 33(b), 39 and 79.

<sup>42</sup> CMA, 28 May 2025, Water PR24 Redetermination References – Approach and prioritisation, paragraphs 78 and 79.

<sup>43</sup> CMA, 28 May 2025, Water PR24 Redetermination References – Approach and prioritisation, paragraph 81.

<sup>44</sup> CMA, 28 May 2025, Water PR24 Redetermination References – Approach and prioritisation, paragraph 83.

<sup>45</sup> CMA, 28 May 2025, Water PR24 Redetermination References – Approach and prioritisation, paragraph 86.

- 5.7 Further, the ASM and the OAM are not only relevant to the balance of risk and return<sup>46</sup> but also to financeability. For example, ASM thresholds should be calibrated taking into account the ability of the notional company to manage downside risk.

## 6 Financeability and investability

- 6.1 With regard to financeability:
- (a) we welcome the CMA's proposal to consider appropriate debt and equity metrics<sup>47</sup>;
  - (b) we encourage the CMA to consider cross-check evidence as well as equity payback periods; and
  - (c) we request that longer term financeability dynamics are considered (e.g. based on the PR24 FD, metrics would deteriorate in future AMPs as the overall cost of debt increases – highlighting that the cost of equity is not sustainable).
- 6.2 We also note that the CMA Approach document does not reference consideration of downside scenarios (i.e. the financial resilience of the notional company). We consider that this is an important part of the financeability assessment, particularly given the heightened risk levels faced at PR24.<sup>48</sup>
- 6.3 Finally, as set out in the letter submitted to the CMA by our shareholders in response to this consultation, our recent equity raises should not be taken as indicative that Ofwat's PR24 FD is financeable and the CMA should consider whether new investors would be willing to invest their capital in SEW having regard to the current economic and regulatory climate.

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<sup>46</sup> CMA, 28 May 2025, Water PR24 Redetermination References – Approach and prioritisation, paragraph 88.

<sup>47</sup> CMA, 28 May 2025, Water PR24 Redetermination References – Approach and prioritisation, paragraph 91.

<sup>48</sup> SEW, 21 March 2025, SoC, paragraph 7.15 and Annex H, paragraphs 46-51.

