

Date: 6 November 2025

Water PR24 Redetermination Panel,
The Competition and Markets Authority,
The Cabot,
25 Cabot Square,
London E14 4QZ.

By e-mail: waterpr24references@cma.gov.uk

Dear Panel,

RE: Water PR24 references – third party response to the provisional determinations

I am writing on behalf of Pennon Group, the FTSE 250-listed environmental infrastructure group focused on the UK water sector, to provide a third-party response to the Competition and Markets Authority's (CMA) provisional redeterminations for PR24.

Pennon Group serves around 4.3 million people across the South West of England and the South East through South West Water, Bristol Water, Bournemouth Water and SES Water, through our c.4,000 colleagues. We are also active in the Water Business market through Pennon Water Services, SES Business Services and a minority share in the retailer Water 2 Business.

We welcome the opportunity to provide observations on the provisional redeterminations. While we are not a disputing company and therefore do not comment on company-specific adjustments, we believe it is helpful to reflect on several areas with wider implications for the overall regulatory framework for UK Water.

1) Base allowances and asset health

The CMA has taken a different approach to assessing base cost allowances, introducing a simpler set of models with greater recognition of company-specific factors. If applied across the sector, this would generally imply a lower level of base allowance for PR24 (subject to the incorporation of 2024/25 cost data).

We recognise the challenge in determining an efficient level of expenditure that both maintains asset condition and delivers improvements in service. However, any approach needs to ensure sufficient baseline funding to operate, maintain and replace assets, particularly given the cost and service pressures experienced across the sector in recent years.

We therefore agree with the CMA's conclusion that longer-term reforms to the regulatory approach for asset health should be developed through industry-wide policy work, including Ofwat's development of the cost adjustment mechanisms for AMP8. We support this work proceeding in parallel with the redetermination process.

2) Frontier shift

The CMA's proposed frontier shift of 0.7%, compared with Ofwat's 1%, appears to be a proportionate reflection of current UK productivity data and economic conditions. The evidence suggests that delivering efficiency improvements consistently at 1% per year would be challenging across the UK Water sector in the near term and out of step with the growth in the UK economy. The CMA's adjustment therefore aligns the efficiency assumption more closely with observable data.

3) Wider implications

We welcome the CMA's recognition that its redetermination of performance commitment levels and ODI rates for appellant companies has implications for the broader operation of the Outturn Adjustment Mechanism (OAM). We agree with the recommendation that Ofwat should consider calculating the OAM separately:

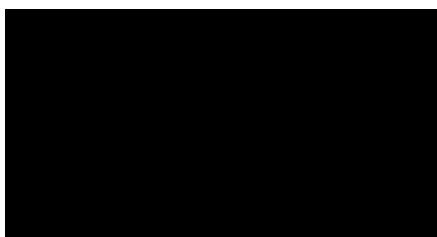
- **For appellant companies**, using the CMA's revised PC levels and ODI rates.
- **For non-appellant companies**, using the levels and rates set at the final determination.

This is consistent with Ofwat's stated approach at PR24, where recalibration for disputing companies would not alter the median benchmark applied to the rest of the sector. We note, however, that further consideration of the OAM may be required in light of ongoing changes to the performance commitment and ODI framework more generally.

In addition, the cost of capital approach the CMA uses here will also have implications for the financing of additional investment during AMP8 for all water companies. The CMA could consider a recommendation to Ofwat relating to this in its Final Decision.

We hope these comments are helpful as the CMA finalises its redeterminations.

Yours faithfully,

A large black rectangular redaction box covering the signature area.Three lines of black rectangular redaction boxes covering contact information.