Wessex Water

PR24 CMA Redetermination

Response to Provisional Determination

11 November 2025

CONTENTS

1 Introduction

1.1 We appreciate the significant efforts of the Panel and CMA team in reviewing the submissions by Ofwat, companies, and other interested parties, and coming to an informed view in a short time.

1.2 Whilst the provisional determination results in an improved position relative to Ofwat's Final Determination for Wessex Water (and indeed the other appellants), we are still left with a substantial gap compared to what we know we need in order to deliver our statutory obligations, and ultimately the right outcomes for consumers and the environment in AMP8.

1.3 Therefore, for the reasons set out in our statement of case and this response document, we ask the CMA to reconsider its cost allowances in its final determination. For Wessex Water specifically, this will require further consideration of the CMA's position in relation to ensuring asset health is appropriately funded, and the CMA's assessment of our investment cases for disinfection and bioresources.

1.4 As such, and consistent with the CMA's guidance[1], in this response document we provide the following.

(a) Further clarity on our case and comments on the CMA's reasoning in relation to disinfection (chapter 2) and bioresources (chapter 3).

(b) Comments on the CMA's reasoning in relation to base costs (chapter 4), phosphorus removal modelling (chapter 5), frontier shift (chapter 6), outcomes (chapter 7), and the cost of capital (chapter 8).

(c) The requested views in relation to PAYG rates and bill profiling (chapter 9).

2 Disinfection

2.1 As the CMA notes, we and Ofwat previously stated these costs could be reallocated to enhancement.[2] In response to the reasoning in the CMA's provisional determination, we confirm that the CMA should assess it as enhancement investment in its final determination. Consistent with the CMA's suggestion, in the following paragraphs we therefore set out "*views and*

[1] Competition and Markets Authority Water Reference Guide (December 2024), paragraph 3.30.
[2] CMA, Water PR24 references, Provisional Determinations (October 2025), paragraphs 4.691 and 4.715.

evidence on whether this investment should be funded as enhancement investment."[3]

2.2 In Annex 3, we demonstrate how we meet each of the relevant assessment criteria for enhancement investment and, in Appendix A448 and A449[4], we provide an independent assessment of our proposed scheme design and expenditure. This demonstrates (based on benchmarking against a large sample of suitable comparators, and at different levels of aggregation) that the design and costs are efficient.[5]

2.3 We also note that the CMA's provisional determination does not represent the most recent correspondence from the DWI[6]. Since we submitted our statement of case, and the DWI submitted its third-party submission to the CMA, the DWI has written to confirm that, in place of a legal notice, all parties could proceed on the basis of an "acknowledged action"[7]. On this basis, DWI confirmed that "*If the funding for the delivery of the disinfection schemes is agreed by Ofwat/CMA we will track and monitor progress of the delivery of these schemes under acknowledged actions.*"[8] We provided the DWI's communication to us in our response to the CMA's RFI of June 2025 and ask the CMA to consider this in its final determination.[9]

2.4 Since the CMA published its provisional determination, the DWI has also provided us with an "acknowledged action form" which we have completed and submitted to the regulator in relation to the proposed schemes. The DWI has subsequently issued 'Acknowledged Actions', which we provide in Appendices A440 to A447.

2.5 The DWI has also written to the CMA in response to the provisional determination, setting out the following in relation to our proposed investment.

> *"The Inspectorate has commended these schemes for support on the basis that they reduce the likelihood of a disinfection failure, they increase the resilience of the water treatment works and that the water treatment works selected represent the highest risk. All seven schemes*

[3] CMA, Water PR24 references, Provisional Determinations (October 2025), paragraph 4.715.
[4] A448 – Aqua Consultants Disinfection Scheme Cost Benchmarking Report – CONFIDENTIAL and A449 – Aqua Consultants Independent scope assurance of PR24 disinfection schemes – CONFIDENTIAL.
[5] These were commissioned in response to the CMA's provisional determination and are submitted in line with the CMAs suggestion that we may want to submit evidence in relation to an enhancement case in relation to disinfection.
[6] CMA, Water PR24 references, Provisional Determinations (October 2025), paragraphs 4.696 to 4.699, and 4.703.
[7] A433 – DWI email to WSX 12 June 2025, submitted alongside Wessex Water response to WW-RFI2 (June 2025).
[8] A433 – DWI email to WSX 12 June 2025, submitted alongside Wessex Water response to WW-RFI2 (June 2025).
[9] Wessex Water, response to WW-RFI2 (June 2025).

have now been formalised into Acknowledged Actions, which shall be tracked by the Inspectorate, throughout their delivery, to completion. We have made Ofwat aware of these actions, and both Ofwat and the CMA were copied into our formal acceptance letter to the company, for awareness."[10]

2.6 We request that the CMA considers the information set out above and allows our disinfection claim as enhancement investment in its final determination.

3 Bioresources – Section redacted

4 Base costs

Asset health

4.1 We are pleased that the CMA recognises that "*asset reliability is of critical importance for customers and the environment*"[11] and that "*there is a pressing need for further progress to be made on resolving the broader issues around asset health.*"[12]

4.2 We agree that "*substantial industry-wide work is required to further develop the approach to asset health in the water industry.*"[13] However, we would encourage the CMA to ensure that its final determinations are supportive of (or at least not at odds with) companies being able to sufficiently invest in maintaining the resilience of their assets in the immediate term. As set out in our statement of case, and previously throughout discussions with Ofwat, this issue is not limited to mains renewals, meter replacement, and network reinforcement.

4.3 We consider this position is supported by, and consistent with, the findings of the Independent Water Commission (IWC). In line with its Terms of Reference, the IWC did not make recommendations to reopen the live Price Review 2024. However, it did note that *"the current regulatory approach to infrastructure resilience is not delivering a sufficiently resilient system to tackle both short-term*

[10] Letter from the DWI to the CMA "Water PR24 Price Redeterminations – Update from the Drinking Water Inspectorate" (6 November 2025).
[11] CMA, Water PR24 references, Provisional Determinations (October 2025), paragraph 4.191.
[12] CMA, Water PR24 references, Provisional Determinations (October 2025), paragraph 4.194.
[13] CMA, Water PR24 references, Provisional Determinations (October 2025), paragraph 4.235.

shocks and long-term pressures" [14]*,* and that *"Ofwat's current approach is largely backward looking, based on lagging maintenance expenditure and indicators of asset health."* [15]

4.4 This is relevant to the CMA because our case was clear that this backward-looking approach would continue to compound the problem of insufficient funding for asset health and resilience over this price control period.

4.5 Therefore, the IWC's findings are another point of evidence that indicate the historical outturn data will represent an underspend on asset health, and any modelling using this data will, by definition, underfund companies. In our view, the CMA should further align its redetermination with the IWC's findings and recommendations (as suggested in further detail in the paragraphs that follow), and that in doing so it would safely remain within the current regulatory framework (i.e. it would not represent policy change).

4.6 In view of the above and recognising the CMA's efforts in reaching a measured provisional determination in such a short time, we urge the CMA to strongly consider the following in its final determinations.

(a) **The relevant catch-up efficiency:** We consider that the CMA's models address some of the concerns we raised with Ofwat's models. However, it is important to recognise that models based on historical underfunding will always generate a lower level of cost than is required. As such, we encourage the CMA to reassess the appropriate level of catch up efficiency, recognising that the benchmark is not a true reflection of the efficient spend required to maintain a notional water and sewerage network.

(b) **Ofwat's Asset Health Roadmap:** We agree with the CMA that, ideally, "*fundamental changes to the regulatory framework are best addressed through industry-wide policy work.*"[16] However, this is set against a backdrop of over 25 years' engagement with Ofwat on proposals to address issues of asset health.[17] Nearly a year into Ofwat's two-year timeline for a cost change process under its Asset Health Roadmap, there is still uncertainty in the industry as to whether, how, and when additional funding to deliver substantive changes to the approach to maintaining asset health will be provided. We would, therefore, encourage the CMA to carefully consider: (i) whether there are sector-wide asset health issues that cannot

[14] Independent Water Commission - Final Report, paragraph 877.
[15] Independent Water Commission - Final Report, paragraph 877.
[16] CMA, Water PR24 references, Provisional Determinations (October 2025), paragraph 4.228.
[17] For example, please see pages 10 and 11 of the transcript to our company specific hearing (7 July) where Andy Pymer sets out that: "*this is not the first time that we have had a roadmap and a proposal to address issues of asset health. And in fact actually is it is not even the second time or the third time. In fact, it is the fifth time in terms of five price reviews in a row*."

be resolved within the revised PR24 base expenditure allowances; and (ii) if so, what clarity the CMA should seek from Ofwat's roadmap to give itself (and the industry) this comfort, and/or what adjustments the CMA might make to its final determinations, without changing policy, to ensure sufficient funding for asset health in the meantime. We urge the CMA to allow appropriate investment in this area, without the need to change policy.

Sector-wide cost adjustments

4.7 In relation to the sector-wide cost adjustments, when determining its view of the level of activity funded by the models, the CMA has used the full modelling period (2011/12 to 2023/24), rather than the period used to set the efficiency benchmark (the five most recent years).

4.8 We consider this to be an error, because the approach embeds a mathematical inconsistency between allowed costs and activity levels. The question of what base might buy in AMP8 is not relevant to determining how much base activity is actually funded by the base cost models. Mathematically, the base cost models fund the average activity level undertaken by the efficient company over the period 2019-24. This means that only activity up to this average level is covered by the cost allowances. Therefore, if the required activity level in AMP8 exceeds the average undertaken by the efficient company in this period, any additional activity must be explicitly funded to ensure cost allowances are sufficient to meet the required outcomes.

4.9 The impact of this on allowed costs is material, given the large reductions in activity levels over time, which is recognised by the CMA.

4.10 The CMA should therefore revise its approach to address this issue, as explained further in Appendix A453.

Real price effects

4.11 The CMA's provisional view on the implications of its modelling changes for the energy and labour real price effects (RPEs) is: "*that there is no need* […] *for additional, post-modelling adjustments for RPEs*."[18] In further email correspondence, the CMA has indicated that it is seeking representations on the appropriate mechanism. In our view the end-of-period true-up calculations should logically compare:

[18] CMA, Water PR24 references, Provisional Determinations (October 2025), paragraph 4.60.

(a) the out-turn changes in the published indices that Ofwat names in its final determination; versus

(b) the % annual input price inflation allowances made by the CMA.

4.12 Secondly, we also note that by switching RPEs to zero in the 'Controls' tab in its 'Base costs aggregator model', the CMA has inadvertently allowed for zero RPEs for all non-modelled water and wastewater costs. As is recognised in their definition, these costs are not modelled and therefore the effect of input prices on these costs are also not captured by any modelling. As such, we ask the CMA to ensure that these RPEs are not removed from cost adjustments and unmodelled costs in its final determinations.

LASSO modelling approach

4.13 While no modelling approach is without its limitations, the LASSO results provide additional evidence alongside Ofwat's traditional econometric suite with regards to historical expenditure (which, as we set out above, we consider represents significant underfunding).

4.14 In our statement of case, we also raised concerns about the extremity of results under Ofwat's approach. These are materially addressed in the CMA's provisional findings. Wessex Water has moved from being 6% efficient on wastewater and 30% inefficient on water supply according to Ofwat's final determination models (being a relative efficiency gap of 36% for the same company with the same governance, management and processes) to being 4% efficient and 3% inefficient respectively according to the CMA's modelling – i.e. a 7% efficiency gap which, in our view, is considerably more plausible.

4.15 However, we note that the sector-wide allowances resulting from the CMA's modelling are significantly lower than those provided in Ofwat's final determinations. Given that Ofwat's allowances were based mainly on backward-looking data, and in light of recent independent reviews[19] consistently finding that the sector has suffered from underinvestment, we question the CMA's reasoning in setting aggregate allowances below Ofwat's level.

4.16 We also note that, as set out in the joint Disputing Companies' submission made on 30 October 2025, we consider there has been an analytical error by the CMA

[19] For example, reports by the Independent Water Commission (Independent Water Commission: Final Report, July 2025), the National Audit Office (Regulating for investment and outcomes in the water sector, April 2025) and the Public Accounts Committee (Failing water sector left to flounder as piecemeal regulators appear to be missing in action, July 2025).

in relation to the implementation of LASSO.[20] Correcting this error – without making any further changes to the CMA's modelling approach – would have the effect of further reducing base cost allowances.

4.17 In undertaking any review and making any updates to its base cost modelling for final determinations, we consider it essential that the CMA sets base cost allowances that, in the round, properly address the wider critique of underfunding in the industry over previous AMP periods.

5 Enhancement: phosphorus removal

Cost modelling

5.1 We welcome the CMA's finding that Ofwat's P-removal models have very low explanatory power and are potentially mis-specified.[21] This finding is consistent with the position in our statement of case.

5.2 In our statement of case, we asked the CMA to only use econometric modelling where it can be shown to accurately reflect the relationships between cost drivers and efficient costs.[22] The CMA's statistical techniques appear to have dealt with many of the issues relating to the missing cost drivers and idiosyncratic nature of sites. In that context, we agree with the CMA's reasoning that its models are an improvement on Ofwat's, with a higher explanatory power and more plausible efficiency scores across the companies.

5.3 Whilst more could be done in principle to reflect the cost structure of P-removal schemes, we appreciate that the data does not exist to undertake more complete modelling.[23] On this basis, we support use of the CMA's modelling in the final determination, bearing in mind its position *"that econometric benchmarking is a key tool in attempting to mitigate the informational asymmetry that exists between the regulator and the water companies."*[24]

5.4 Furthermore, specifically in relation to the CMA's reasoning on asymmetric information, we would note that the analysis in our statement of case shows that, in aggregate, our bottom-up (engineering-led) cost estimates for our PR19

[20] Email from Jack Jeffries on behalf of all Disputing Companies "PR24 Redeterminations - Economic Insight paper on the CMA's implementation of LASSO [NRF_EMEA-UK.FID3418297]" (30 October 2025).
[21] CMA, Water PR24 references, Provisional Determinations (October 2025), paragraph 5.37.
[22] Wessex Water, Statement of Case (March 2025), paragraph 9.101.
[23] CMA, Water PR24 references, Provisional Determinations (October 2025), paragraph 5.72.
[24] CMA, Water PR24 references, Provisional Determinations (October 2025), paragraph 5.38.

P-removal schemes were very close to our actual (outturn) costs for those same schemes (a 3% margin of error).[25]

Financial model inputs

5.5 An adjustment is required to the financial model inputs to ensure the CMA's phosphorus removal cost allowances are correctly reflected in AMP8 revenues, as explained below.

(a) The additional £239.9m of cost allowances (before frontier shift) provisionally determined by the CMA have currently been applied pro-rata to Ofwat's final determination allowances starting in 2023-24.

(b) This results in £6.9m of the increase being applied to AMP7 cost allowances but with no equivalent adjustment to the AMP8 opening RCV.

(c) Therefore, this amount has been omitted from our redetermination revenues.

(d) If we have understood the CMA's intentions correctly, i.e. that our phosphorus removal cost allowances should be £239.9m higher than those determined by Ofwat (before frontier shift), then this omission can be remedied by maintaining the unadjusted Ofwat final determination allowances in AMP7 and then pro-rating the CMA's provisionally determined uplift over the AMP8 years only.

(e) A calculation of the required adjustment is set out in Table 2 below.

Table 1 – Allocation of P-Removal Cost Allowances[26]

Allowance (£m)	23-24	24-25	25-26	26-27	27-28	28-29	29-30	Total
Ofwat	3.6	14.5	18.2	43.4	70.0	198.0	282.6	**630.3**
CMA intended	5.0	20.0	25.1	59.9	96.7	273.3	390.2	**870.2**
CMA actual	3.6	14.5	25.1	59.9	96.7	273.3	390.2	**863.3**
Shortfall	-1.4	-5.5						**-6.9**
Proposed remedy	3.6	14.5	25.3	60.4	97.5	275.5	393.4	**870.2**
Adjustment	-1.4	-5.5	+0.2	+0.5	+0.8	+2.2	+3.2	**0.0**

[25] Wessex Water, Statement of Case (March 2025), paragraph 9.84 and table 7.
[26] The "Proposed remedy" values in this table should be entered directly into the "F_Inputs WW allow" tab of the PR24 FD CA14 Enhancement costs aggregator model – the AMP7 values should be entered in row reference C_PR24CA60_ENH_WW_TE and the AMP8 values should be entered in row reference C_PR24CA60_ENH_WW_TOT.

5.6 We ask the CMA to make this adjustment in its final determination. (Or, if there is any difference between the CMA's final determination and provisional determination for P-removal cost allowances, to apply the same principle to the final determination cost allowances of pro-rating over AMP8 only.)

6 Frontier shift

6.1 We agree with the CMA's decision to provisionally set a frontier shift target below Ofwat's proposed target of 1% pa. Consistent with our statement of case, this recognises that the factors causing the productivity slowdown are economy-wide and, therefore, that the water sector should be expected to achieve productivity growth similar to that of the UK economy.

6.2 Below, we provide comment on the CMA's specific reasoning in two respects and ask the CMA to reconsider both of these in its final determination.

(a) First, we consider that in setting the frontier shift target for AMP8, the CMA's analysis should also use recent UK productivity data (especially given the persistent over-optimism of productivity growth forecasts, coupled with the persistency of the UK's "productivity puzzle"[27]).

(b) Second, we consider that the CMA's approach will likely result in a double-count. This is because the UK total factor productivity metric reflects the combination of productivity gains made through both reduced costs and increased quality, and therefore the CMA's approach implies the water sector can achieve productivity growth of more than 0.7% pa, because of the quality improvements they are also expected to deliver.

7 Outcomes

7.1 We support the CMA's aim to address skew in the package at source, consistent with our statement of case.[28] This includes the common adjustments made to the water supply interruption PCL and the ODI rate for total pollution incidents.

7.2 However, we disagree with the CMA's reasoning that such adjustments are a relevant consideration as to whether or not to remove the deadband on the Outturn Adjustment Mechanism (OAM). This is because the rationale for its removal is an in-principle one: to the extent that the OAM is in place it should be

[27] See, for example, What is the productivity puzzle? - Office for National Statistics, July 2015.
[28] Wessex Water, Statement of Case (March 2025), table 1.

functioning to deliver its intended impact. The adjustments made by the CMA cannot address potential miscalibration of the entire package. With the deadband in place, the OAM will not recalibrate investor returns in all instances of systematic outperformance or underperformance across the sector. For example, in a world where the sector median performance is ±0.45% RoRE in each year of the AMP, either customers will be consistently overcharged or companies will be systematically underfunded. We therefore ask the CMA to reconsider its position on the deadband for the OAM.

8 Cost of capital

8.1 We acknowledge the higher allowed return set by the CMA, including the recognition of the higher systematic risk than determined by Ofwat, and confirmation of the appropriateness of aiming up on the cost of equity to ensure customers are protected from underinvestment, and to help secure the material investment the sector needs over the AMP.

8.2 We support the CMA's approach to estimating long-run equity and government bond returns using a consistent methodology through the Dimson-Marsh-Staunton (DMS) dataset. By anchoring decisions in long-term empirical evidence, the CMA enhances the stability and predictability of its determinations, which is essential for investor confidence and regulatory credibility. The DMS dataset's standardised 125-year coverage provides a robust foundation, ensuring methodological coherence and comparability across asset classes. This also helps mitigate concerns around data selection bias and reinforces the integrity of the stable equity risk premium (ERP) estimate.

8.3 To further test the resilience of the ERP result, several useful cross-checks could be conducted. One such check involves the calculation of a stable ERP value using equity returns and historic index-linked gilt (ILG) data to the extent that is it available. This would help assess whether the DMS-derived government bond return aligns sensibly with the ILG-based risk-free rate used by the CMA. Additionally, comparing the inflation assumptions embedded in the DMS dataset with those in the KPMG inflation dataset, that was used in the target market return analysis, could validate the consistency of real return estimates. Finally, exploring whether the DMS methodology could be expanded to produce a dataset of daily returns for June 2025 could give a risk-free rate estimate using the same basis as the ERP estimate. We encourage the CMA to consider such cross-checks when concluding its view on the cost of capital for its final determinations.

8.4 We agree with the CMA's view that it would not be appropriate to exclude the OBR's latest forecast for CPIH while at the same time taking into account updated data for other parameters. However, we comment on the CMA's reasoning and accuracy of its arguments in using the OBR's long-term forecasts – which apply from the mid-2030s – to set prices for the period from 2026 to 2030. Instead, achieving consistency in price setting requires using the OBR's CPIH forecasts for the same period as that over which prices are being set. We also include as an appendix[29] a short paper from John Earwaker of First Economics produced on behalf of all the disputing companies, addressing this issue.

8.5 The OBR's forecasts for the price-setting period are set out in Table 3 below. If the CMA continues to use the OBR's forecasts of CPIH in its final determinations then, for consistency of price setting, we ask the CMA to use the CPIH figures in this table for the years 2026-27 to 2029-30.

Table 2 – OBR CPI and CPIH forecasts[30]

Year	CPI Inflation	CPIH Inflation
2026-27	1.9%	2.3%
2027-28	2.0%	2.1%
2028-29	2.0%	2.0%
2029-30	2.0%	2.1%

9 Bill profiles and related matters

Affordability considerations

9.1 At the outset of the price control process, as the CMA notes, we aimed to keep bill increases below 30% in real terms between 2024-25 and 2029-30. In the context of the CMA's provisional determinations and the representations we make in this response, including on the profile of bills, we consider it possible to keep broadly aligned with this aim.

[29] A450 – First Economics report on CPIH Inflation.
[30] Source: OBR's 'March 2025 Economic and fiscal outlook – detailed forecast tables: economy', Table 1.7: https://obr.uk/docs/dlm_uploads/Economy_Detailed_forecast_tables_March_2025.xlsx.

9.2 We also reaffirm our commitment that no customer will be in water poverty by 2030, defined by the government as households not spending more than 5% of their disposable income on their water bills.

9.3 Our overarching priority is to minimise bill volatility and ensure charges remain fair, affordable, and reflective of the future investment needed to protect the environment and secure the long-term resilience of our services.

Bill profiling

9.4 The CMA has asked for views on the appropriate profile of customer bills over the remainder of AMP8. We have considered three potential options:

(a) bills set to their natural profile;

(b) bills rising evenly over the period, to end at their natural rate; and

(c) bills rising in line with inflation, i.e. flat in real terms.

9.5 Before assessing each of these options, we consider there is value in incorporating Ofwat's blind year redetermination into the financial model to consider the complete picture of bills. We have done this by:

(a) adding Ofwat's recognised and unambiguous error in the cost allowances for growth at water recycling centres into totex; and

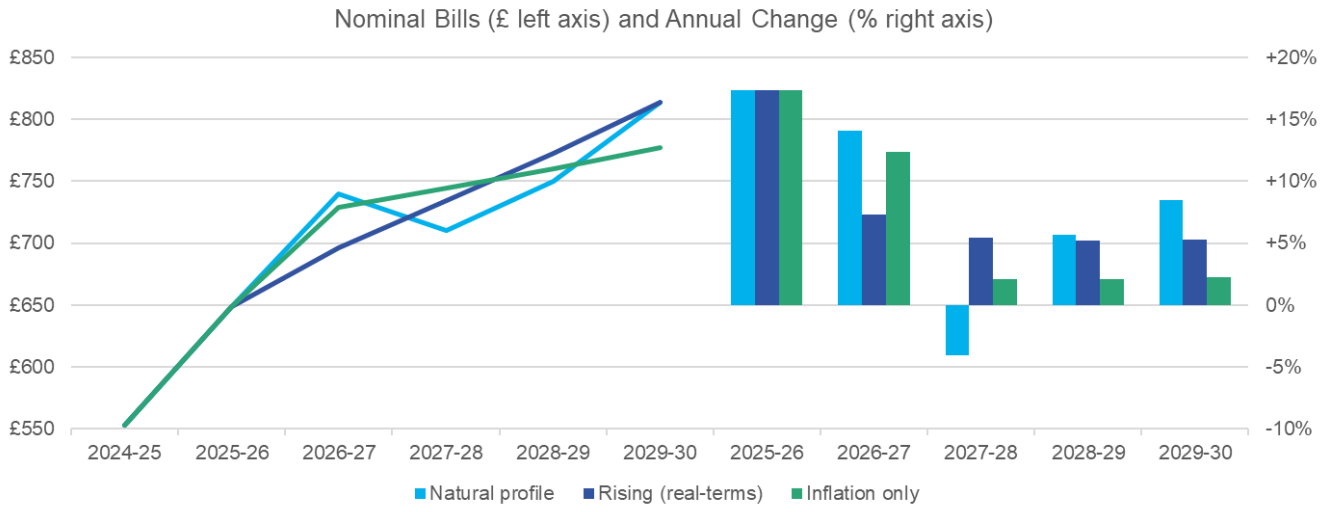
(b) updating the post-financeability inputs (covering items such as the Outcome Delivery Incentives and sharing of AMP7 totex under-/out-performance) to align to our representations to Ofwat's draft determination of the blind year reconciliation (excluding the growth error at point (a) above).

9.6 Adjusting for the blind year has the effect of slightly reducing bills, by around £2 pa. We believe it is important that reductions in bills arising from the blind year adjustment should be incorporated into the CMA's final determinations. We also believe there is value in the CMA explicitly incorporating the blind year reconciliation, including the unambiguous error relating to growth at water recycling centres, into its modelling to avoid any risk of duplication, or omission of adjustments.[31]

[31] While we have adjusted for the blind year reconciliation using the figures in our representation to Ofwat's draft determination of the blind year (being the most recent figures available at the time of this Response to our Provisional Determination), should the CMA choose to adjust for the blind year reconciliation, then that would most sensibly be done using Ofwat's final determination of the blind year, which Ofwat is currently in the process of finalising.

9.7 Resulting bill profiles under each of the three options are illustrated in Figure 1 below.

Figure 1 – Potential AMP8 bill profiles



9.8 Option (a) sees bills follow the underlying cost and revenue profile without intervention. While this has the benefit of simplicity, it introduces significant volatility, as can be seen in the light blue bars on the right of the figure. Such fluctuations create uncertainty for customers and undermine trust. For these reasons, we discount this option.

9.9 Option (b) smooths the trajectory, providing predictability and avoiding sudden spikes, which is positive for customer experience. However, it still results in real-terms increases in bills, which can be more challenging for affordability than a single larger increase. The increases are projected to be greater than 5% every year, which is the trigger level under Ofwat's charges scheme rules for publishing a Statement of Significant Changes, further demonstrating that these rises would be seen by customers as significant year after year. In addition, our long-standing experience shows that customers are more sensitive to changes in bills than to their absolute level, and having multiple years of above-inflation bill rises is less acceptable than an initial larger rise with bills then moving in line with inflation thereafter.

9.10 Option (c) addresses this immediately preceding point. Keeping bill rises in line with inflation for as many years as possible minimises perceived volatility and improves affordability. This approach aligns with customer expectations for stability and predictability, while still allowing for gradual cost recovery in a way that feels fair and manageable. While this option means that bills are a few percentage points below their natural rate by the end of the price review period, risking potential incidence effects in 2030-31, this will be subsumed by wider

uncertainties, for example in the future balance of risk and reward for the sector post-2030 and the prevailing regulatory and market conditions at that time. In our view, bills being slightly below their natural rate when viewed from four years' distant is not a material concern and not one that outweighs the benefits to customers of keeping bills flat in real terms in as many years as possible.

9.11 In our view, we therefore believe it would be in customers' best interests to set bills to be flat in real terms for the reminder of the price review period.

PAYG rates

9.12 As set out in our response to Ofwat's draft determination, we have set PAYG ratios to recover opex and infrastructure capitalised renewals expenditure as fast money. Ofwat subsequently adopted this approach in our final determination.

9.13 We consider that this approach should be maintained in the CMA's final determination. Changing this approach to a different formulation would necessitate adjustments to RCV run-off rates to maintain an internally consistent set of modelling assumptions.

Consistency in K-factor calculations

9.14 As noted in the email exchange between Southern Water and the CMA on 21 and 22 October[32], the K-factors for Year 1 in the CMA's model differ from those in Year 1 of Ofwat's model, despite both models producing the same real revenues for that year.

9.15 The CMA notes that, while the Ofwat financial model includes K-factors, it did not explicitly calculate K-factors for its provisional determinations and intends to do so in the final determinations.

9.16 Further, we observe that the difference in K-factors simply reflects the different set of inflation assumptions in the CMA's provisional determinations compared to those in Ofwat's final determination. Both sets of calculations are internally consistent and equally correct.

9.17 Importantly, though, we note that, in considering the K-factors in final determinations, it is necessary for the CMA to adopt all of the K-factors from either one set of inflation assumptions or the other. Mixing K-factors from

[32] Southern Water's email to the CMA titled "*PR24: Provisional Determination – Supporting Materials and Clarifications*", dated 21 October 2025 at 16:34, and the CMA's response to the same, dated 22 October 2025 at 15:33.

different inflation bases would result in either underfunding or overfunding companies, leading to customers being charged either too little or too much. Accordingly, the published K-factors and their incorporation into licences must be from a single set of inflation assumptions.

9.18 We also note that, whilst either set of inflation assumptions is equally valid for the purpose of modelling K-factors, aligning the inflation indices in the financial model[33] with those used by Ofwat would most readily aid comparison with Ofwat's final determination.

[33] 'InpS' tab, rows 2072 and 2075 to 2086.

Annex A1 - Index of supporting documents

A1- 1.1 This annex provides a full list of documents referred to within our response to the CMA's provisional determination.

A1- 1.2 Those marked with 'Confidential' will have redacted elements. Annex A2 contains further information on non-confidential versions that have been shared.

Table A1-1 – List of appendices submitted alongside our Provisional Determination Response

Name	Date	Context	Position
A440 - DWI letter - 31 October -Wessex Water AMP8 Disinfection Schemes - non confidential	31 October 2025	Provided as supporting evidence for the need for our disinfection investment – DWI summary letter on their position	External document
A441 - WSX-2025-00001_AMP8 ✂*Site name redacted* Disinfection Acknowledgement - non confidential	29 October 2025	Provided as supporting evidence for the need for our disinfection investment – Acknowledged action for the given site	External document
A442 - WSX-2025-00002_AMP8 ✂*Site name redacted* Disinfection Acknowledgement - non confidential	29 October 2025	Provided as supporting evidence for the need for our disinfection investment – Acknowledged action for the given site	External document
A443 - WSX-2025-00003_AMP8 ✂*Site name redacted* Disinfection Acknowledgement - non confidential	29 October 2025	Provided as supporting evidence for the need for our disinfection investment – Acknowledged action for the given site	External document

Name	Date	Context	Position
A444 - WSX-2025-00004 AMP8 ✂*Site name redacted* Disinfection Acknowledgement - non confidential	29 October 2025	Provided as supporting evidence for the need for our disinfection investment – Acknowledged action for the given site	External document
A445 - WSX-2025-00005_AMP8 ✂*Site name redacted* Disinfection Acknowledgement - non confidential	29 October 2025	Provided as supporting evidence for the need for our disinfection investment – Acknowledged action for the given site	External document
A446 - WSX-2025-00006_AMP8 ✂*Site name redacted* Disinfection Acknowledgement - non confidential	29 October 2025	Provided as supporting evidence for the need for our disinfection investment – Acknowledged action for the given site	External document
A447 - WSX-2025-00007_AMP8 ✂*Site name redacted* Disinfection Acknowledgement - non confidential	29 October 2025	Provided as supporting evidence for the need for our disinfection investment – Acknowledged action for the given site	External document
A448 - Aqua Consultants Disinfection Scheme Cost Benchmarking Report – non confidential	30 October 2025	Report provided as evidence for the robustness of our disinfection costs	External document
A449 – Aqua Consultants Independent scope assurance of PR24 disinfection schemes – non confidential	6 November 2025	Report provided as evidence for the robustness of our disinfection scheme scopes	External document

Name	Date	Context	Position
A450 - First Economics report on CPIH inflation	23 October 2025	A short paper from John Earwaker of First Economics produced on behalf of all the disputing companies	External document
A451 – Provisional Determination Response data sources	11 November 2025	Data sources for the Provisional Determination Response	Internal document; final position
✂			
A453 - Economic Insight Report - Time inconsistency error in what base buys	7 November 2025	A short paper from Economic Insight produced on behalf of all the disputing companies	External document
A454 - CMA-PD-Financial-model-Wessex-Water - PD Response RISING	7 November 2025	Provided to support our commentary on possible options for bill profiles as requested	Internal document; final position
A455 - CMA-PD-Financial-model-Wessex-Water - PD Response FLAT	7 November 2025	Provided to support our commentary on possible options for bill profiles as requested	Internal document; final position
A456 - CMA-PD-Financial-model-Wessex-Water - PD Response NATURAL	7 November 2025	Provided to support our commentary on possible options for bill profiles as requested	Internal document; final position
A457 - BY2024-25DD_PR24PD24_RCV-adjustments-feeder-V4_WSX - RR3	7 November 2025	Provided to support our commentary on possible options for bill profiles as requested	Internal document; final position
A458 - BY2024-25DD_PR24PD25_Revenue-adjustments-feeder-v2.13_WSX	7 November 2025	Provided to support our commentary on possible options for bill profiles as requested	Internal document; final position

Annex A2 - Table of redactions

A2- 1.1 This annex summarises each of the sections of our Provisional Determination Response and associated attached annexes we request redactions for.

A2- 1.2 The redacted text is highlighted in blue (or with a blue background as per this paragraph for substantial sections/whole chapters to aid readability) in the confidential version (with 'Confidential' in the header) that has been sent to the CMA. This version can be shared with Ofwat.

A2- 1.3 A second redacted version has then been submitted. This is the version that can be shared with other water companies and published. Redacted text is marked with a ✂ symbol.

Table A2-1 – List of redacted content in our Provisional Determination Response and associated annexes

Section	Reason for redaction
Bioresources section	This chapter is redacted due to it containing sensitive health and safety information.
Annex A3 - Disinfection	Site names have been removed; DWI guidance states that specific water supply site and scheme locations and names should not be placed in the public domain.

A2- 1.4 Table A2-2 then contains a summary of the documents in our appendices that should not be published.

(a) The first section contains documents for which we have provided redacted non-confidential versions. These non-confidential documents can be shared if necessary.

(b) The second section contains documents that we wish to redact in their entirety and should only be shared with the CMA and Ofwat.

A2- 1.5 These redactions are in line with the redactions previously discussed with the CMA.

Table A2-2 – List of redacted content in the appendices submitted alongside our Provisional Determination Response and associated annexes

Document	Section	Theme	Reason for redaction
Documents that have had non-confidential versions produced			
A440 - DWI letter - 31 October -Wessex Water AMP8 Disinfection Schemes - non confidential	Site names removed throughout	Disinfection request supporting information	DWI guidance states that specific water supply site and scheme locations and names should not be placed in the public domain.
A441 - WSX-2025-00001_AMP8 ✂*Site name redacted* Disinfection Acknowledgement - non confidential	Site names removed throughout	Disinfection request supporting information	DWI guidance states that specific water supply site and scheme locations and names should not be placed in the public domain.
A442 - WSX-2025-00002_AMP8 ✂*Site name redacted* Disinfection Acknowledgement - non confidential	Site names removed throughout	Disinfection request supporting information	DWI guidance states that specific water supply site and scheme locations and names should not be placed in the public domain.
A443 - WSX-2025-00003_AMP8 ✂*Site name redacted* Disinfection Acknowledgement - non confidential	Site names removed throughout	Disinfection request supporting information	DWI guidance states that specific water supply site and scheme locations and names should not be placed in the public domain.
A444 - WSX-2025-00004 AMP8 ✂*Site name redacted* Disinfection Acknowledgement - non confidential	Site names removed throughout	Disinfection request supporting information	DWI guidance states that specific water supply site and scheme locations and names should not be placed in the public domain.

Document	Section	Theme	Reason for redaction
A445 - WSX-2025-00005_AMP8 ✂*Site name redacted* Disinfection Acknowledgement - non confidential	Site names removed throughout	Disinfection request supporting information	DWI guidance states that specific water supply site and scheme locations and names should not be placed in the public domain.
A446 - WSX-2025-00006_AMP8 ✂*Site name redacted* Disinfection Acknowledgement - non confidential	Site names removed throughout	Disinfection request supporting information	DWI guidance states that specific water supply site and scheme locations and names should not be placed in the public domain.
A447 - WSX-2025-00007_AMP8 ✂*Site name redacted* Disinfection Acknowledgement - non confidential	Site names removed throughout	Disinfection request supporting information	DWI guidance states that specific water supply site and scheme locations and names should not be placed in the public domain.
A448 - Aqua Consultants Disinfection Scheme Cost Benchmarking Report - non confidential	Site names removed throughout	Disinfection request supporting information	DWI guidance states that specific water supply site and scheme locations and names should not be placed in the public domain.
A449 – Aqua Consultants Independent scope assurance of PR24 disinfection schemes – non confidential	Site names removed throughout	Disinfection request supporting information	DWI guidance states that specific water supply site and scheme locations and names should not be placed in the public domain. Some minor elements have also been redacted to prevent sites being identified and that relate to site resilience.
Wider appendices that are redacted fully			
✂			

Annex A3 - Disinfection

Introduction

A3- 1.1 As set out in section 2 above, we request that the CMA treats our disinfection claim as enhancement investment in its final determination. Accordingly, this annex sets out how our investment claim for these new obligations meets Ofwat's enhancement claim assessment criteria (as defined in its PR24 final methodology[34]).

Need for enhancement investment

a) Is there evidence that the proposed enhancement investment is required (ie there is a quantified problem requiring a step change in service levels)? This includes alignment with strategic planning framework or environmental programme where relevant.

b) Is the scale and timing of the investment fully justified, and for statutory deliverables is this validated by appropriate sources (for example in an agreed strategic planning framework)?

A3- 1.2 The investment represents a step change in service levels, and is supported by the DWI.

A3- 1.3 As set out in our response to query WW-RFI2, we consider that the more recent engagement with the DWI provides further context and direction on this consideration. We therefore refer you to A433 (DWI email to WSX 12 June 2025). In this, the DWI sets out that upgrading the disinfection at the eight marginal disinfection sites to a defined minimum contact time and to align with more recent World Health Organisation guidance is "*the correct thing to do and that we have challenged Wessex Water to go faster and further on the delivery of the schemes*"[35].

A3- 1.4 Since the publication of the CMA's provisional determination, the DWI has also provided us with an "acknowledged action form" which we have completed and submitted to them. These are included in appendices A440 – A447.

A3- 1.5 As a result, where these improvements are funded in the CMA's final determination, annual reporting on progress will be required, and where the

[34] See Annex A1, PR24 final methodology Appendix 9 – Setting Expenditure Allowances.
[35] A433 – DWI email to WSX 12 June 2025.

DWI has concerns, the Inspectorate reserves the right to place the acknowledged actions into formal enforcement.

A3- 1.6 We have provided further information regarding capacity, cost and treatment complexity at the eight sites requiring disinfection improvements in SOC appendix ✂.

c) Does the proposed enhancement investment or any part of it overlap with activities to be delivered through base, and where applicable does the company identify the scale of any implicit allowance from base cost models?

A3- 1.7 There is no overlap between the proposed investment and the activities we are expected to deliver though base. This has been acknowledged by Ofwat since the publication of its final determination.[36]

A3- 1.8 For more details on our views as to why Ofwat's base cost econometric models do not provide allowances for this specific investment please see SOC appendix ✂.

d) Does the need and/or proposed enhancement investment overlap or duplicate with activities or service levels already funded at previous price reviews (either base or enhancement)?

A3- 1.9 There is no overlap with previous enhancement allowances as we can confirm that we have not previously sought enhancement funding for improving disinfection.

e) Is the need clearly identified in the context of a robust long-term delivery strategy within a defined core adaptive pathway?

A3- 1.10 The costs associated with this need are reflected in all scenarios that underpin our LTDS (demand; climate change; technology and abstraction reduction).

f) Where appropriate, is there evidence that customers support the need for investment (including both the scale and timing)?

A3- 1.11 As set out in our response to query WW-RFI2, this investment is driven by changes in the WHO's guidance and communications with the DWI. Therefore, we have not conducted any customer research on these specific investment needs.

A3- 1.12 However, we did conduct extensive research on customer priorities for our investment as part of our overall PR24 business planning. This was based on

[36] Please see SOC Appendix ✂.

various research triangulated by Sia Partners. Customers placed *maintaining safe and reliable water* as their most important priority. For more information see Section 3.4 of SOC appendix A012, and the full report from Sia in SOC appendix A014.

g) Is the investment driven by factors outside of management control? Is it clear that steps been taken to control costs and have potential cost savings (eg spend to save) been accounted for?

A3- 1.13 As set out in our response to query WW-RFI2, this investment is driven by changes in the WHO's guidance and communications with the DWI. It is therefore outside of management control.

Best option for customers

a) Has the company considered an appropriate number of options over a range of intervention types (both traditional and non-traditional) to meet the identified need?

b) Has a robust cost–benefit appraisal been undertaken to select the proposed option? Is there evidence that the proposed solution represents best value for customers, communities and the environment over the long term? Is third-party technical assurance of the analysis provided?

c) In the best value analysis, has the company fully considered the carbon impact (operational and embedded), natural capital and other benefits that the options can deliver? Has it relied on robustly calculated and trackable benefits when proposing a best value option over a least cost one?

A3- 1.14 The used of UV for primary disinfection provides the most cost-effective way to achieve the effective contact time required by the WHO.

A3- 1.15 There are two further alternative treatment approaches to UV disinfection.

(a) Constructing a new large contact tank (a complex structure and pipework arrangement) to allow chlorine dosing only.

(b) Constructing an additional contact tank (smaller than for option (a)) and associated super chlorination and desulfurnation chemical facilities.

A3- 1.16 These options are both more costly that UV and as such were not progressed as options in our investment planning. For example, the size of the contact tanks would have created challenges with regards to fitting the tanks on sites, and would have had significantly higher carbon impacts due to the quantity of concrete and groundworks required. UV also reduces the amount of chlorine gas that needs to be stored and handled.

A3- 1.17 In addition to the value in terms of costs and carbon, UV provides increased protection against cryptosporidium delivering two benefits for one investment.

A3- 1.18 In Appendix A449 Aqua comments that *"Wessex Water's change in approach to move away from marginal chlorination as the sole water treatment process at these sites and add UV upstream of chlorination to ensure microbiological quality of water into supply is a sound approach"*[37], further supporting our choice of treatment technology.

d) Has the impact (incremental improvement) of the proposed option on the identified need been quantified, including the impact on performance commitments where applicable?

A3- 1.19 The primary benefit of this work is to safeguard the quality of water we deliver to customers and reduce the risk of inadequate disinfection. These works will therefore help maintain our industry leading CRI performance.

e) Have the uncertainties relating to costs and benefit delivery been explored and mitigated? Have flexible, lower risk and modular solutions been assessed – including where forecast option utilisation will be low?

A3- 1.20 We are implementing a standard solution at each site, installing UV for primary disinfection. Whilst the size of the UV plant at each site will vary depending on specific site requirements (e.g. the flow rate of the a site and required UV dosage depending on the transmissivity[38] of the water) a UV installation in itself could be considered a modular build, with similar requirements at each site to reduce design costs.

A3- 1.21 However, the works to integrate this additional treatment stage is different at each site. When looking at how to integrate the UV treatment stage into the current site treatment processes we considered the following.

(a) The pressure of the water at different stages of the treatment process; UV requires a low pressure of water to work, which may require, for example a break tank to reduce the pressure (at ✂*Site name redacted* for example the boreholes pump directly into the service reservoir at high pressure and so a break tank is required).

(b) Where in the process stages of the site does the UV fit most appropriately (different sites have different treatment processes

[37] Section 4 of A449 – Aqua Consultants Independent scope assurance of PR24 disinfection schemes.
[38] The transmittance is the percentage of ultraviolet (UV) light that can pass through a substance, such as water or air. It is a measure of how clear a liquid is to UV light, as substances like dissolved organic matter, heavy metals, or even added chemicals can absorb or deflect UV rays, lowering the transmittance.

depending on the age of the site and the treatment requirements of the raw water).

(c) Where physically the UV treatment can be located (which can on occasion require additional land purchase).

A3- 1.22 Our scope of works and associated costs (the costs being commented on later in this annex) were compiled by our engineering department in line with our design standards.

A3- 1.23 Aqua has reviewed our scopes for all 8 sites and sets out: *"we are of the view that all schemes are well-justified and proportionate interventions. This report should provide confidence that Wessex Water's disinfections proposals are appropriate in its appeal to the CMA and for its AMP8 investment plan"*[39].

A3- 1.24 Aqua also supports the inclusions we have made for risk and uncertainty within our cost estimate, setting out that: "*A comparison of scheme-level optimism bias estimates to Green Book best practice suggests Wessex Water's provisions for optimism bias are commensurate with our expectations, with a mean of 20.7% compared to best practice estimates of 3-44%. Projects further developed in the planning process had lower optimism bias estimates in line with our expectations".*

f) Has the scale of forecast third party funding to be secured (where appropriate) been shown to be reliable and appropriate to the activity and outcomes being proposed?

A3- 1.25 There is no third-party funding associated with this investment.

g) Has the company appropriately considered the scheme to be delivered as Direct Procurement for Customers (DPC) where applicable?

A3- 1.26 DPC consideration is not applicable as the investment proposed is significantly below Ofwat's Programme Scalability Test.

h) Where appropriate, have customer views informed the selection of the proposed solution, and have customers been provided sufficient information (including alternatives and its contribution to addressing the need) to have informed views?

A3- 1.27 Please see paragraphs A3- 1.11 to A3- 1.12.

Cost efficiency

[39] Executive summary of A449 – Aqua Consultants Independent scope assurance of PR24 disinfection schemes.

a) Is it clear how the company has arrived at its option costs? Is there supporting evidence on the calculations and key assumptions used and why these are appropriate?

A3- 1.28 As commented on in previous answers, the two Aqua reports on scope and cost (appendices A449 and A448 respectively) support our approach to option and cost identification, a summary of which was provided in our response to WW-RFI2.

b) Is there evidence that the cost estimates are efficient (for example using similar scheme outturn data, industry and/or external cost benchmarking)?

A3- 1.29 Our approach to estimating these costs is set out in our response to question 6 of the CMA's query WW-RFI2.

A3- 1.30 In their independent third party review, Aqua states: *"combining the direct and indirect costs with overhead costs, Wessex Water's costs produced a total efficiency of 3.2% compared to our independent benchmarks. Wessex Water's optimism bias provisions are within expected parameters. We therefore have no concerns over any element of the disinfection costings."*[40]

c) Does the company provide third party assurance for the robustness of the cost estimates?

A3- 1.31 This is provided in appendix A448.

Need for enhancement model adjustment (modelled adjustment only)

A3- 1.32 These sub-criteria are not applicable as we are not seeking a modelled adjustment.

Customer protection

a) Are customers protected (via a price control deliverable or performance commitment) if the investment is cancelled, delayed or reduced in scope?

A3- 1.33 Yes. As previously set out in our communications with Ofwat[41] and the CMA[42] a PCD could be used to further protect customers. The output could be linked to our reporting against the DWI's acknowledged actions for each of the sites.

[40] Appendix A448.

[41] As stated in ✂.

[42] As stated in our statement of case, Annex A7 – Further information on disinfection at water treatment centres.

b) Does the protection cover all the benefits proposed to be delivered and funded (e.g. primary and wider benefits)?

A3- 1.34 Yes – the PCD proposed above would cover all benefits.

c) Does the company provide an explanation for how third-party funding or delivery arrangements will work for relevant investments, including how customers are protected against third-party funding risks?

A3- 1.35 There are no third-party funding or delivery arrangements associated with this proposed investment.